UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

In re CHINA MOBILE GAMES & ENTERTAINMENT GROUP, LTD SECURITIES LITIGATION	Case No. 1:14-CV-04471 (KMW) CLASS ACTION JURY TRIAL DEMANDED ECF CASE
This Document Relates To: All Actions	

SECOND CONSOLIDATED AMENDED SECURITIES CLASS ACTION COMPLAINT

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The allegations in this Second Consolidated Amended Securities Class Action Complaint ("Complaint") are based on the personal knowledge of Lead Plaintiff Johnnie Dormier ("Dormier") and named plaintiffs Edward McCaffery ("McCaffery"), and Charlie Chun ("Chun"), (collectively, "Plaintiffs") as to Plaintiffs' own acts, and are based upon information and belief as to all other matters alleged herein. Plaintiffs' information and belief is based upon the investigation by Plaintiffs' counsel into the facts and circumstances alleged herein, including, without limitation: (i) review and analysis of public filings or database records of China Mobile Games and Entertainment Group Limited ("CMGE" or the "Company") and Shenzhen Zhongzheng Ruanyin Science & Technology Co., Ltd. ("Zhongzheng") made with the United States Securities and Exchange Commission ("SEC"),[1] the Chinese State Administration for Industry and Commerce ("SAIC"),[2] and/or the Shenzhen local Administration for Industry and Commerce (the "Shenzhen AIC"), referenced herein; (ii) review and analysis of press releases, analyst reports, public statements, news articles, and other publications disseminated by or concerning CMGE and the other defendants named herein (together with CMGE, "Defendants") referenced herein; (iii) review and analysis of CMGE's conference calls, press conferences, and related statements and materials referenced herein; (v) interviews with former CMGE and Zhongzheng employees and industry experts with knowledge about the Company and/or its industry; and (vi) consultation with Plaintiffs' independent investigators ("Plaintiffs'

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[1] Defendants reported their annual reports on Form 20-F with the SEC and their quarterly financial results via press releases, which were filed with the SEC as exhibits to Forms 6-K.

[2] The SAIC is a governmental authority in the People's Republic of China ("PRC" or "China") that is responsible for overseeing a variety of corporate and commercial matters at issue here. Chinese corporations must register with the SAIC upon formation, and must timely disclose a variety of information to the SAIC, including but not limited to: periodic financial statements; changes in ownership; use of corporate stock as collateral for a debt contract; and the identities of corporate officers. Some of this information is accessible to the public and is used by Chinese investors. Information regarding encumbrance of stock through use as collateral is also available to counterparties considering making loans.

Investigators"). Many additional facts supporting the allegations herein are known only to Defendants and/or are within their exclusive custody or control. Plaintiffs believe that additional evidentiary support for the allegations herein will emerge after a reasonable opportunity to conduct discovery.

NATURE OF THE ACTION

1. This is a federal class action on behalf of investors who purchased publicly traded CMGE American Depository Shares ("ADS") between April 26, 2013 and January 14, 2015, inclusive (the "Class Period"), including those investors who purchased ADS pursuant to CMGE's secondary offering for 3,422,000 CMGE ADS at $24.00 per ADS, which offering closed on or about March 26, 2014 (the "Offering").

2. Plaintiffs are pursuing remedies under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act"). Lead Plaintiff Dormier and Plaintiff Chun also bring claims under Sections 11, 12 and 15 of the Securities Act of 1933 (the "Securities Act"), on behalf of all persons who purchased CMGE ADS pursuant to the Offering.

3. Plaintiffs' claims are asserted against CMGE, certain officers and directors of CMGE, and certain underwriters of the Offering who made materially false or misleading statements or omissions during the Class Period in press releases, analyst conference calls and presentations, and filings with the SEC, including CMGE's registration statement for the Offering filed with the SEC on Form F-3 on March 7, 2014 (the "2014 Registration Statement"), the amendments to the 2014 Registration Statement filed with the SEC on Forms F-3/A on March 14 and March 18, 2014 (the "2014 Registration Statement Amendments"), and the prospectus for the Offering that CMGE filed with the SEC on Form 424(B)(3) March 20, 2014 (the "2014 Prospectus"). The 2014 Registration Statement, the 2014 Registration Statement

Amendments, and the 2014 Prospectus are referred to collectively herein as the "2014 Offering Documents."

4. During the Class Period, CMGE was focused on the development and publishing of games for mobile devices, including feature phones, smart phones, and tablets. Around the second half of 2011, the Chinese market rapidly began to transition from basic feature phones to smartphones, and from single-player games to more interactive mobile games called "social games." In 2011-2012, CMGE had only a few with social games in its portfolio and, facing declining revenues, CMGE needed to quickly expand its mobile game portfolio to keep up with demand for social games. However, the self-development of such games would have been a very costly and risky endeavor because only a small percentage of games become successful.

5. To address the challenges of a transitioning mobile game market and to expand CMGE's mobile game publishing activities, CMGE and Defendant Ken Jian Xiao ("Xiao"), CMGE's Chief Executive Officer ("CEO") began "cooperating" with Defendant Shuling Ying a/k/a Dino Ying ("Ying"), founder and CEO of a mobile game development and publishing company called Zhongzheng in 2012. A number of CMGE's successful games during the Class Period were developed and/or published by Zhongzheng, according to mobile game distribution platforms. Defendants, however, violated GAAP, SEC rules, and other accounting and disclosure standards by failing to accurately disclose the nature of CMGE and Zhongzheng's relationship to – and in fact concealing it from – the investing public.

6. In June 2013, Ying was named President of CMGE's powerful publishing division Joygame ("Joygame"), and was subsequently promoted to President of the Company in October 2013. With the help of Zhongzheng, Ying's tenure brought a significant reversal of CMGE's struggles, as the Company reversed its net loss of RMB17.5 million in 2012 to a

positive net income of RMB23.6 million in 2013, and grew to a net income of RMB227.9 million in 2014. Ying remained President of CMGE until Xiao removed him and eight other senior managers under Ying from their positions on June 19, 2014, amidst accusations of bribery and power struggles between Xiao and Ying.

7. When this news reached the market, the price of CMGE ADS dropped $4.57 per ADS, or more than 24%, to close at $14.33 per ADS, on June 20, 2014.

8. To quell the rumors and stem these stock losses, CMGE quickly disavowed its prior statements to Nomura HK research analysts about any bribery allegations and stated that the Company was "restructuring." However, Ying and his subordinates remained terminated until two months later, when Ying was re-hired as CMGE's Chief Operating Officer ("COO") on August 18, 2014 and remained in that position until approximately May 2015. A former employee noted that CMGE had to rehire Ying and the eight other managers because the Company was still dependent on Ying and his team's expertise.

9. Additional details about CMGE's suspicious actions and undisclosed relationship with Zhongzheng were brought to light on January 15, 2015, when research analyst GeoInvesting, LLC published a report entitled "China Mobile Games: Who Is Really Being Played?" on the investor news website *SeekingAlpha.com* (the "GeoInvesting Report"), exposing CMGE and Ying's undisclosed related party relationship with Zhongzheng, attached hereto in full as Exhibit ("Ex.") A.

10. After translating CMGE's June 19, 2014 termination memo announcing the dismissal of Ying and eight other senior managers of CMGE (the "June 2014 Termination Memo"), the GeoInvesting Report also published research findings to support that at least four of the fired employees were also Ying's subordinates. Specifically, the GeoInvesting Report

revealed that five of the nine fired CMGE employees, including Ying, were once or currently are major shareholders of Zhongzheng, or were otherwise linked to Zhongzheng.

11. As revealed by the GeoInvesting Report and supported by Plaintiffs' investigation, Ying and three of his fired subordinates also engaged in a series of suspicious ownership transfers to conceal Ying's ownership and control of Zhongzheng from one subordinate to another. As described in more detail below, two of Ying's subordinates, Juan Du ("Du") and Chenghai Dan ("Dan"), were majority shareholders and/or closely affiliated with other companies linked to Ying, according to Zhongzheng's filings with the Shenzhen AIC and SAIC filings for Du and Dan's other companies. Moreover, Plaintiffs' investigation found that at least four of these dismissed CMGE subordinates are now listed as senior management of Ying's new company.

12. This news caused the price of CMGE ADS to drop $1.49 per ADS, nearly 8%, to close at $17.46 per ADS on January 16, 2015, on usually heavy volume, damaging investors.

JURISDICTION AND VENUE

13. This action arises under Sections 10(b) and 20(a) of the Exchange Act, as amended (15 U.S.C. §§ 78j(b) & 78t), including SEC Rule 10b-5 (17 C.F.R. § 240.10b-5) promulgated thereunder, as well as Sections 11, 12, and 15 of the Securities Act (15 U.S.C. §§ 77k, 77l, and 77o).

14. This Court has jurisdiction over the action pursuant to Section 22 of the Securities Act (15 U.S.C. § 77v), Section 27 of the Exchange Act (15 U.S.C. § 78aa), and 28 U.S.C. §§ 1331.

15. Venue is proper in this District pursuant to 28 U.S.C. § 1391(a), (b), & (c), Section and 27 of the Exchange Act (15 U.S.C. § 78aa), and Section 22 of the Securities Act (15

U.S.C. § 77v). Certain of the acts and conduct complained of herein, including dissemination of materially false and misleading information to the investing public, occurred in this District, where the Company's ADS are actively traded on the NASDAQ Global Market (the "NASDAQ"). During the Class Period, Credit Suisse Securities (USA) LLC ("Credit Suisse"), Jefferies LLC ("Jefferies"), Barclay's Capital, Inc. ("Barclays"), and Brean Capital, LLC ("Brean") maintained their principal places of business in this District and Nomura Securities International, Inc. ("Nomura") maintained an office in this District.

16. In connection with the acts alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications, and the facilities of the national securities markets.

THE PARTIES

I. Plaintiffs

17. Lead Plaintiff Dormier, as set forth in his shareholder certification previously filed with the Court and incorporated herein by reference, purchased CMGE ADS at artificially inflated prices during the Class Period, both on the open market and pursuant to the 2014 Registration Statement issued in connection with the Offering, and suffered damages as a result of the federal securities law violations and false and/or misleading statements and/or material omissions alleged herein.

18. Plaintiff McCaffery, as set forth in his shareholder certification previously filed with the Court and incorporated herein by reference, purchased CMGE ADS at artificially inflated prices during the Class Period, and suffered damages as a result of the federal securities law violations and false and/or misleading statements and/or material omissions alleged herein.

19. Plaintiff Chun, as set forth in his shareholder certification previously filed with

the Court and incorporated herein by reference, purchased CMGE ADS at artificially inflated prices during the Class Period directly from the Underwriters, pursuant to the 2014 Registration Statement issued in connection with the Offering, and suffered damages as a result of the federal securities law violations and false and/or misleading statements and/or material omissions alleged herein.

II. Defendants

A. The Company Defendants

20. Defendant CMGE is a Cayman Islands corporation with its principal place of business in Guangzhou Province, China. CMGE promotes itself as a leading mobile services provider in mainland China, boasting the world's largest mobile network and mobile customer base. During the Class Period, CMGE's ADS were traded on the NASDAQ under the ticker symbol "CMGE."

21. Defendant Xiao has been CMGE's CEO since April 2012 and a director of CMGE since August 2012. Prior to becoming CEO, Xiao served as CMGE's COO. As CEO, Xiao directly participated in and controlled management of the Company, including, without limitation, day-to-day decisions concerning the creation and implementation of internal control protocols, publication of statements made to the investing public, the SEC, and publication of statements by and on behalf of CMGE concerning internal controls and the Company's required financial disclosures, including but not limited to disclosures regarding related-party transactions, in the Company's press releases, SEC filings, and other public statements.

22. Defendant Ken Fei Fu Chang ("Chang") has been CMGE's Chief Financial Officer ("CFO") since May 23, 2012, and a director of CMGE since August 2012. As CFO, Chang directly participated in and controlled management of the Company, including, without limitation, day-to-day decisions concerning the creation and implementation of internal control

protocols, publication of statements made to the investing public and the SEC, and publication of statements by and on behalf of CMGE concerning internal controls and the Company's required financial disclosures, including but not limited to disclosures regarding related-party transactions, in the Company's press releases, SEC filings, and other public statements.

23. Defendants CMGE, Xiao, and Chang are collectively referred to herein as the "Exchange Act Defendants."

24. Defendant Ying became the President of CMGE's "Joygame" publishing division in June 2013, and also served as CMGE's President from October 2013 until his removal on or about June 19, 2014. On or around August 18, 2014, Ying was re-hired as CMGE's COO. Prior to joining CMGE, Ying was one of the founders, and served as CEO, of Zhongzheng from 2009 to June 2013. According to Ying, he first began "cooperating" with Xiao in 2012 (during which time was CEO of Zhongzheng), when CMGE was expanding into the mobile games market for smartphones.

25. Defendants Xiao, Chang, and Ying are collectively referred to herein as the "Individual Defendants."

B. The Underwriter Defendants

26. Defendant Credit Suisse is an investment bank with its principal place of business in New York City. Credit Suisse was an underwriter and joint bookrunner in the Offering, and agreed to purchase 1,721,000 ADSs of the Company, exclusive of the over-allotment option.

27. Defendant Barclays is an investment bank with its principal place of business located in New York City. Barclays was an underwriter and joint book runner in the Offering, and agreed to purchase 657,422 ADSs of the Company, exclusive of the over-allotment option.

28. Defendant Jefferies is an investment bank with its principal place of business located in New York City. Jefferies was an underwriter and joint book runner in the Offering,

and agreed to purchase 657,422 ADSs of the Company, exclusive of the over-allotment option.

29. Defendant Nomura is an investment bank with its principal place of business located in Tokyo, Japan that conducts substantial business through its office located in New York City. Nomura was an underwriter and joint book runner in the Offering and agreed to purchase 378,620 ADSs of the Company, exclusive of the over-allotment option.

30. Defendant Brean is an investment bank with its principal place of business in New York City. Brean was an underwriter and co-manager in the Offering and agreed to purchase 27,536 ADSs of the Company, exclusive of the over-allotment option.

31. Defendants Credit Suisse, Barclays, Jefferies, Nomura, and Brean are collectively referred to herein as the "Underwriter Defendants."

32. The Underwriter Defendants participated in the drafting and dissemination of the 2014 Offering Documents and collectively, were to receive underwriting discounts and commissions of approximately $3.9 million (exclusive of any over-allotment fees) and up to $4.5 million (inclusive of the over-allotment fees) in connection with the Offering. According to the 2014 Prospectus, the Underwriter Defendants engaged in a firm commitment underwriting, stating:

> The underwriting agreement provides that the underwriters are obligated to purchase all the ADSs in the offering if any are purchased, other than those ADSs covered by the over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.
>
> Some of the underwriters are expected to make offers and sales both inside and outside the United States through their respective selling agents. Any offers and sales in the United States will be conducted by broker-dealers registered with the SEC.
>
> We have granted to the underwriters a 30-day option to purchase up to 516,300 additional ADSs from us at the initial public offering price less the underwriting

discounts and commissions. The option may be exercised only to cover any over-allotments of ADSs.

33. Defendants CMGE, Xiao, Chang, and the Underwriter Defendants are collectively referred to herein as the "Section 11 Defendants."

EXCHANGE ACT ALLEGATIONS

I. CMGE's Corporate Structure

34. CMGE is purportedly a leading mobile services provider in China. *See* CMGE's 2012 Prospectus at 2, filed on Form 424(B)(3) with the SEC on September 21, 2012 (the "2012 Prospectus"). While CMGE historically was a game developer, in the fourth quarter of 2012, in an attempt to keep up with shifting market demand toward more social mobile gaming, the Company began publishing games designed and created by third parties. With that transition, the Company's purported integrated capabilities included the development, licensing, publishing, distribution, and operation of mobile games, primarily in China. CMGE's distribution network includes its proprietary Game Center application, handset (mobile device) pre-installations, application stores, web platforms, and mobile network operators.

35. CMGE is a Cayman Islands corporation that was formed as the wholly-owned subsidiary of VODone Limited, a state-affiliated company in China traded on the Hong Kong stock exchange. *See id.* at 6. CMGE's business was formed through three separate acquisitions by VODone between 2009 and 2011, in which VODone successively bought: 70% of Guangzhou 3GUU, which mainly focused on feature phone gaming; 100% of Yigao Company, which specialized in mobile phone design solutions; and 70% of Shenzhen Kuailefeng, which developed smartphone games. *See id.* On September 21, 2012, CMGE listed itself on the NASDAQ pursuant to which VODone distributed 42.8% of the outstanding Class A and Class B ordinary shares of CMGE and retained the remaining 57.2%, along with 87% of the voting

power. *See id.* at 8.

36. According to the 2012 Prospectus, CMGE is considered a foreign entity under PRC laws. The PRC government restricts or prohibits foreign entities from investing in certain sectors of the Chinese economy, including mobile and Internet-based businesses. However, a workaround of sorts has been created through a Variable Interest Entity ("VIE"), which is a structure designed to circumvent these restrictions, thereby allowing Chinese businesses operating in regulated sectors to attract investors and access capital from abroad.

37. Typically speaking, to utilize the VIE structure, one or more foreign investors, together with a PRC citizen or entity, will form a foreign-listed entity (often a Cayman Islands corporation) that wholly owns a PRC company called a Wholly Foreign Owned Entity ("WFOE"). Because the WFOE is foreign-owned, it is not eligible for the permits and licenses needed to conduct business in restricted sectors of the economy. Instead, the business is conducted through one or more VIEs, entities that are wholly owned by PRC nationals. The WFOE will then enter into various contracts with the VIE and/or its owners, granting the WFOE economic benefits from the VIE, as well as control over the management of the VIE.

38. GAAP permits the publicly-listed parent company of the WFOE to consolidate the financial statements of the VIE, if it has contractual control over the VIE.[3] Because CMGE is a foreign, non-PRC company that operates in the restricted mobile and internet sector, it would not be able to function effectively without using the VIE structure.

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[3] Financial Accounting Standards Board ("FASB") Interpretation No. 46 (or "FIN 46") governs "Consolidation of Variable Interest Entities" and contains the rules for VIEs. It has been amended as FIN 46R, and is presently included in the FASB Codification of Accounting Standards at Section 810. At present, the rules require a VIE to be consolidated when the parent company (1) has the power to direct the activities of the entity which most significantly impact economic performance; (2) has the obligation to absorb the expected losses of the entity; and (3) has the right to receive the expected residual returns of the entity.

39. At the beginning of the Class Period, CMGE operated through two WFOEs, Huiyou Digital (Schenzehen) Ltd. ("Huiyou Digital") and Guangzhou Yitongtianxia Software Development Co., Ltd., that were contracted with two VIEs, Shenzhen Lanyue Internet Technology Co., Ltd. ("Lanyue") and Guangzhou Yingzheng Information Technology Co., Ltd. ("Yingzheng"), respectively. *See* 2014 Prospectus at 1.

40. Exhibit B attached hereto is a chart illustrating CMGE's VIE structure at the time of the Offering.

II. DEFENDANTS' RELEVANT DISCLOSURE AND REPORTING DUTIES

A. GAAP Mandated Disclosure of the Related-Party Transaction

41. Generally Accepted Accounting Principles ("GAAP") are the standards recognized by the accounting profession as the conventions, rules, and procedures necessary to define accepted accounting practices at a particular time.

42. The SEC and NASDAQ rules and regulations require that publicly traded companies, both foreign and domestic, such as CMGE, include financial statements that comply with GAAP in their annual and quarterly filings with the SEC. *See* § 13 of the Exchange Act; Rule 10-01(d) of Regulation S-X. SEC Rule 4-01(a) of Regulation S-X states that "[f]inancial statements filed with the Commission which are not prepared in accordance with generally accepted accounting principles will be presumed to be misleading or inaccurate." 17 C.F.R. § 210.4-01(a)(1).

43. GAAP Statement of Financial Accounting Standards ("SFAS") No. 57 and Accounting Standards Codification ("ASC") No. 850 provide that a public company's "[f]inancial statements shall include disclosures of material related party transactions." SFAS No. 57 ¶2; ASC 850-10-50-1. "Related party transactions" include those between "an enterprise

and its principal owners, management, or members of their immediate families" and those between a company and its "affiliates." SFAS No. 57 ¶1; ASC 850-10-05-3. "Affiliate" includes any company that is under common control or management with the public company. SFAS No. 57 ¶24(a) & (b); ASC 850-10-20.

44. A related party under GAAP is also defined to include "Affiliates of the enterprise; entities for which investments are accounted for by the equity method by the enterprise; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; principal owners of the enterprise; its management; members of the immediate families of principal owners of the enterprise and its management; and other parties with which the enterprise may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests." SFAS No. 57 ¶24(f), ASC 850-10-20.

45. Management is defined as "Persons who are responsible for achieving the objectives of the enterprise and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management normally includes members of the board of directors, the chief executive officer, chief operating officer, vice presidents in charge of principal business functions (such as sales, administration, or finance), and other persons who perform similar policymaking functions. Persons without formal titles also may be members of

management." SFAS No. 57 ¶24(d), ASC 850-10-20.

46. Disclosures of related-party transactions shall include (a) the nature of the relationship involved, (b) a description of the transactions for each period for which income statements are presented and such other information necessary to an understanding of the effects of the transactions on the financial statements, (c) the dollar amount of transactions for each of the periods for which income statements are presented, and (d) amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement. SFAS No. 57 ¶2; ASC 850-10-50-1.

47. China Generally Accepted Accounting Principles ("PRC GAAP") are substantially the same as GAAP, as they both require disclosure of material related-party transactions. ABSE 36 (the applicable PRC GAAP) requires disclosure in the financial statements of related-party transactions. The definition of related parties is materially the same as SFAS 57.

B. SEC Rules and Regulations Mandated Disclosure of the Related-Party Transaction

48. Item 7 of Form 20-F, together with the General Rules and Regulations under the Securities Act and the Exchange Act, requires that the reporting company disclose any related-party transactions for the period since the end of the previous fiscal year up to the date of the document. *See* SEC Form 20-F General Instructions, OMB No. 3235-0288. The purpose of the provision is to provide "information regarding transactions the company has entered into with persons affiliated with the company and whether the terms of such transactions are fair to the company." *See id.*

49. Under Item 7.B of Form 20-F, the reporting company must disclose transactions or loans with "(a) enterprises that directly or indirectly, control or are controlled by, or are under

common control with, the company; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the company; (d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the company; and (e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence." *Id.* In this context, "[s]ignificant influence over an enterprise is the power to participate in the financial and operating policy decisions of the enterprise but is less than control over those policies. Shareholders beneficially owning a 10% interest in the voting power of the company are presumed to have a significant influence on the company." *Id.*

50. Disclosures of related-party transactions shall include (a) the nature and extent of transactions which are material or unusual in their nature or conditions; and (b) the amount of outstanding loans (including guarantees of any kind) made by the company, its parent or any of its subsidiaries to or for the benefit of any related party. *See id.*

51. SEC Regulation S-K ("Reg. S-K"), together with the General Rules and Regulations under the Securities Act and Exchange Act and the forms under these Acts, states the requirement applicable to the content of the non-financial statement portions of registration statements on Form F-3 and quarterly reports. *See* 17 C.F.R. § 229.10.

52. Item 404 of Reg. S-K ("Item 404") requires the disclosure of detailed information concerning related-party transactions in which the amount[4] involved exceeds $120,000, including the names of the "related person" or entity participating in the transaction, the related person's interest in the transaction, including related person's position, relationship or ownership in the

[4] The term "amount", when used in regard to securities, means the principal amount if relating to evidences of indebtedness, the number of shares if relating to shares, and the number of units if relating to any other kind of security. 17 CFR § 270.8b-2(a).

other entity that is a party to the transaction, and the amount involved in the transaction. *See* 17 C.F.R. § 229.404.

53. A "related person" under Item 404 is defined to include any director or executive officer of the company, any nominee for director, any immediate family member of a director or executive officer of the registrant, or of any nominee for director, or any person who is known to the registrant to be the beneficial owner of more than five percent of any class of the registrant's voting securities (*i.e.*, a 5% or greater shareholder), or the immediate family member of such beneficial owner. *See* instruction 1 to 17 C.F.R. § 229.404(a); 17 CFR 229.403(a).

54. Section 210.4-08(k) of Regulation S-X ("Reg. S-X") also mandates that "[r]elated party transactions should be identified and the amounts stated on the face of the balance sheet, income statement, or statement of cash flows[,]" in documents prepared pursuant to the Securities Act, including prospectuses and registration statements.

55. Reg. S-X explicitly adopts the FASB's definition of related parties. 17 CFR § 210.1-02.

C. The Management Representation Letters Mandated Disclosure of the Related-Party Transactions

56. Generally Accepted Auditing Standards ("GAAS") are a set of systematic guidelines used by auditors when conducting audits on companies' finances, ensuring the accuracy, consistency and verifiability of auditors' actions and reports.

57. As part of each annual audit, under GAAS AU 333, and 334, the Company's auditor is obligated to inquire, either orally or in writing, of each senior officer and each director as to the existence of any related-party transactions with the Company.

58. As part of each annual audit, under GAAS AU 560, the Company's auditor is obligated to inquire of management whether the corporation has entered into any material

transactions that must be listed as subsequent events in the financial statements pursuant to GAAP and SEC regulations.

59. In addition, prior to issuing an unqualified or "clean" audit opinion, auditors should obtain a "management representation letter" signed by the Company's CEO and CFO, which should include, *inter alia* (*see* ¶62, *infra*), disclosure of any material or related-party transactions. These written representations are mandated as a professional standards requirement under the Statements on Auditing Standards No. 85 ("SAS 85").

60. The management representation letter should cover all periods covered by the auditor's report. Management representation letters are used to provide information to the auditors about matters that cannot be objectively tested because they depend on management's knowledge, such as management's intentions and the completeness of information provided to the auditor. A copy of a standard management representation letter is attached as Exhibit C hereto and incorporated herein by reference.

61. Additionally, for each quarterly financial report, the Statement on Standards for Accounting and Review Services No. 9 ("SSARS") required CMGE's auditors to obtain from Xiao and Chang management representation letters in connection with the Company's quarterly reports filed with the SEC during the Class Period.

62. SSARS requires management, in the management representation letter, to identify among other things any related-party transactions or material subsequent events that must be disclosed in the financial statements. More specifically, in the management representation letter, Chang and Xiao were required to individually represent to the Company's independent auditors each reporting period that as of that date, among other things:

- **He or she has disclosed all related-party transactions relevant to the Company to the auditors and that he was not aware of any other such matters required to be disclosed in the financial statements.**
- All the accounting records have been made available to the auditor for the purpose of its audit.
- **All the related-party transactions undertaken have been properly reflected and recorded in the accounting records.**
- All minutes of directors meetings and summaries of board actions for which minutes are not yet available have been made available to the auditor.
- There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
- All guarantees under which the company is contingently liable have been properly recorded or disclosed in the financial statements
- The financial statements are fairly presented in conformance with Generally Accepted Accounting Principles.
- The Company has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

(Emphasis added).

63. The last paragraph of the management representation letter required the CEO Xiao and the CFO Chang to certify: "To the best of our knowledge and belief, no events have occurred subsequent to the balance-sheet date of this letter that would require adjustment to or disclosure in the aforementioned financial statements." The management representation letter thus required CEO Xiao and CFO Chang to disclose to the auditors that Zhongzheng was a related party and the details of the related-party transactions with Zhongzheng.

64. Xiao and Chang knowingly signed false management representation letters to CMGE's auditors prior to issuance of the financial statements in the Company's Form 20-F filed with the SEC on April 26, 2013 ("2012 Form 20-F"), the Company's Form 20-F filed with the SEC on March 7, 2014 ("2013 Form 20-F"), and the quarterly statements CMGE filed during the Class Period, because Xiao and Chang failed to disclose the related-party transactions with Zhongzheng.

D. SEC Rules and Regulations Mandated Disclosure of Ying's Employment History

65. Item 401(e)(1) of Regulation S-K requires registrants to "briefly describe the business experience during the past five years of each … executive officer … including: each person's principal occupations and employment during the past five years."

66. In the Company's 2013 Form 20-F filed on March 7, 2014, the Company described Ying's entire background as follows:

> Shuling Ying became our president in October 2013. He has extensive experience in the licensing, publishing, operation and marketing of mobile games and helps manage our publishing business. Prior to joining our company, Mr. Ying served as a director of the investment division of Standard Chartered Bank Shanghai branch from 2006 to 2008.

67. This description blatantly omitted any mention of Ying's business experience during the past five years, even though Ying was the founder and CEO of Zhongzheng from 2009 to 2013, right up until he joined CMGE. This omission is particularly glaring given Ying first began "cooperating" with Xiao and CMGE in his capacity as CEO of Zhongzheng in 2012.

68. Indeed, the Company tacitly admitted that it violated this disclosure requirement when it filed its 2014 Form 20-F filed with the SEC on April 29, 2015, after the filing of this Action, disclosing for the first time Ying's history with Zhongzheng:

> Shuling Ying joined us in July, 2013 and served as our president from October 2013 to August 2014, when he was appointed as our chief operating officer. He has extensive experience in the licensing, publishing, operation and marketing of mobile games and helps manage our publishing business. Prior to joining our company, Mr. Ying was one of the founders of and served as chief executive officer of Shenzhen Zhongzheng Ruanyin Science & Technology Co., Ltd. from 2009 to June 2013.

III. Defendants Violated CMGE's Code of Ethics

69. On August 20, 2012, as Exhibit 99.6 to its registration statement filed on Form F-1 with the SEC ("2012 Registration Statement"), CMGE filed its "Code of Business Conduct and

Ethics" (CMGE's "Code of Ethics"), attached hereto as Exhibit D.

70. In the "Conflicts of Interest" section of the Code of Ethics, CMGE instructed its employees to "avoid any private interest that influences your ability to act in the interests of the Company or that makes it difficult to perform your work objectively and effectively." Because this would include conflict of financial interest, CMGE further instructed that "[n]o employee should have a significant financial interest (ownership or otherwise) in any company that is a material customer, supplier or competitor of the Company." A "significant financial interest means (i) ownership of greater than 1% of the equity of a material customer, supplier or competitor or (ii) an investment in a material customer, supplier or competitor that represents more than 5% of the total assets of the employee."

71. The "Competition and Fair Dealing" section of CMGE's Code of Ethics states that "relationships with suppliers are based on price, quality, service and reputation, among other factors. Employees dealing with suppliers should carefully guard their objectivity." Therefore, "no employee should accept or solicit any personal benefit from a supplier or potential supplier that might compromise, or appear to compromise, their objective assessment of the supplier's products and prices."

72. In the "Accuracy of Financial Reports and Other Public Communications" section of the Code of Ethics, CMGE stated that "[i]t is essential that the Company's financial records, including all filings with the Securities and Exchange Commission ("SEC") be accurate and timely." Accordingly:

> The[] senior officers must ensure their conduct is honest and ethical that they abide by all public disclosure requirements by providing full, fair, accurate, timely and understandable disclosures, and that they comply with all other applicable laws and regulations. These financial officers must also understand and strictly comply with generally accepted accounting principles in the U.S. and all standards, laws and regulations for accounting and financial reporting of

transactions, estimates and forecasts.

73. Since Ying maintained control of Zhongzheng and Du and Dan were senior managers of CMGE and majority shareholders of Zhongzheng during the Class Period, this violated CMGE's internal policies against conflicts of interests. Moreover, since CMGE employees engaged in acts of bribery to secure and maintain business relationships with distributors, this also violated CMGE's Code of Ethics.

IV. CMGE's Role In China's Mobile Gaming Industry

74. The mobile gaming industry in China has grown rapidly in recent years. *See* Ritesh Tiwari, Korea & China Mobile Game Market 2014 Research Reports, MarketWatch, Aug. 2, 2014. In fact, from 2010 to 2012, revenues from the mobile gaming industry in China grew from USD $150 million to USD $540 million (or 360%), and in 2013, revenue from the Chinese mobile gaming market grew 247%, reaching USD $1.87 billion. *See id.* According to market intelligence firm Niko Partners, in 2014, mobile game revenues generated domestically in China were USD $3.3 billion, and in 2015, revenues were USD $5.5 billion.[5]

75. The mobile game industry in China is broken into three major sectors: (1) game developers; (2) game publishers; and (3) distribution channels. *See* Ritesh Tiwari, Korea & China Mobile Game Market 2014 Research Reports, MarketWatch, Aug. 2, 2014. To develop a game is to take it from concept to functioning product – and includes designing and coding the game. To publish a game is to take a functioning product and to bring it to market by placing it with distribution channels, marketing it, and collecting revenue. A distribution channel is the place where a customer can buy a game. In the context of smartphone games, this typically refers

[5] *See* Lisa Hanson, *2016 Chinese Games Market Predictions*, NIKO PARTNERS (February 8, 2016), http://nikopartners.com/2152-2; Chris Dalby, *US firms struggling to enter China's mobile gaming market*, GLOBAL TIMES (September 16, 2015), http://www.globaltimes.cn/content/942870.shtml.

not to a brick and mortar store, but a virtual store. In the U.S., the Apple mobile "app" (*i.e.*, software application) store for iPhones is a prominent example of a distribution channel. In 2013, the distributor 360 Mobile Assistant had the largest market share of third-party app stores in China. *See id.*

76. Game developers, also known as content providers, design and develop the mobile games and then either publish the games themselves, through app channels for example, or license the games to third party game publishers. *See* 2013 Form 20-F. In 2013, the largest game developer in China in terms of market share was Tencent Holdings Limited ("Tencent").

77. Mobile game publishers license the games created by third-party mobile game developers. Publishers often provide additional services such as game enhancements that optimize player preferences, marketing campaigns, and data analysis of user behavior. *See id.* Mobile game publishers then promote the games they license through distribution channels such as various app stores and mobile game portals, as well as through pre-installation on mobile devices. *See id.*

78. The distribution channels and portals either collect money from end-users themselves or work with third party payment channels to facilitate that service. *See id.*

79. Revenues from each game sold are traditionally split between the three sectors with 30% going to the content provider, 30% going to the game publisher, and 40% to the distribution platform. *See* CMGE Q3 2013 Earnings Call (Nov. 15, 2013). However, this split can vary based on the popularity of the game. Moreover, some larger players like Alibaba have entered the market and begun to give a greater share, up to 70% of revenues, attract game developers and publishers. *See* Juro Osawa, *Alibaba Sees Mobile Games As Latest Trove*, THE WALL STREET JOURNAL (September 9, 2014), http://www.wsj.com/articles/alibaba-sees-mobile-

games-as-latest-trove-1410281966.

80. Prior to the Class Period, CMGE was primarily focused on mobile game development. In 2010 and 2011, it purportedly had the largest market share in China in terms of revenues generated by mobile game developers. *See* 2012 Prospectus at 142. In connection with its development activities, CMGE also has a mobile handset design business, which is complementary to its game development business in that CMGE pre-installs its mobile games and game platforms onto the handsets it designs. *See id.* This handset design business accounted for 12.2% of revenues in 2010, 15.9% in 2011, 8.2% in 2012, and 9.6% in 2013. *See* 2012 Prospectus at 107; 2013 Form 20-F at 93.

81. In the fourth quarter of 2012, CMGE entered into the publishing sector of the mobile games market by purchasing or licensing mobile games from third-party developers and publishing the games through third party app stores. Around the same time, CMGE released its own distribution channel called the Game Center application, a proprietary app store for Android-based smart phones which distributes third-party games. *See* 2012 Form 20-F at 49. With the launch of Game Center, CMGE began to offer games directly to consumers for download. However, because consumers download games through numerous platforms, CMGE still relied on third-party distribution platforms as well.

82. After the Company partnered with Ying and Zhongzheng, entered the publishing sector, and launched its Game Center in late 2012, its publishing sector market share grew rapidly. According to the 2014 Prospectus, CMGE had the largest market share of all mobile game publishers in China in 2013 based on gross billings.

83. CMGE stated on a conference call held on March 4, 2014 that the Company has "attracted a lot of [third party] games" among which it gets "to pick sort of [the] best from them"

because CMGE has created "a lot of love in the market" through its success and high ranking among publishers. CMGE 4Q 2013 Earnings Call (Mar. 4, 2014). This statement was reiterated on a conference call conducted two months later when CMGE stated that it "can get good quality [] because the[re] are so many games that line up to . . . hope that we chose them to cooperate[.]" CMGE 1Q 2014 Earnings Call (May 16, 2014).

84. Despite its seemingly successful expansion into the publishing and distribution of mobile games, however, CMGE still cited its game development activities as critical to its overall success. For example, in both the 2012 Form 20-F and the 2013 Form 20-F, CMGE stated that "[e]nhancing the awareness of our mobile game brands among users is a part of our growth strategy. We believe our future success depends on, among other things, market recognition and acceptance of, as well as our ability to promote, our CMGE brand."

V. CMGE's Business Was Heavily Impacted by the Transition to Smartphones in 2012

85. In 2012, CMGE's business was substantially impacted by the market transition from feature phones (mobile phones that include basic multimedia features such as Internet access and the ability to store and play music) to smartphones (advanced mobile phones combining multiple aspects of a personal computer operating system with numerous other multimedia features, often including access to third-party software components). *See* 2012 Form 20-F at 103.

86. According to the Company, smartphone social games had more sophisticated technology features to enhance the user experience by incorporating better graphic interfaces, increasing user engagement through enhanced and evolving story lines, permitting more users to play concurrently, and encouraging collaboration through instant messaging among players. *See* 2012 Form 20-F at 46. This accelerated the popularity of social games, but by the end of 2012,

CMGE only had seven self-developed social games, including four smartphone social games, and the Company had not yet licensed any social games to publish or distribute. *See* 2012 Form 20-F a 44, 47.

87. To address the rapid decline of feature phones and the increased adoption of smartphones in China, CMGE had to shift its focus from developing games for feature phones to smartphones, from developing primarily single player games to offering social games, and from designing handsets for feature phones to smartphones. *See* 2012 Form 20-F at 8. But to meet demand during the rapid market transition as the mobile game market was on the precipice of extraordinary growth, CMGE would need substantial investments in research and development, marketing and advertising, and personnel to maintain its large market share in China. *See* 2012 Form 20-F at 8, 10-11, 13, 46, 74.

88. With the necessary levels of investment not immediately available, however, and given the risks and costs associated with game development (*see*, *e.g.*, ¶90, *infra*), licensing became essential to broadening CMGE's game portfolio and maintaining CMGE's market share during the transition to smartphones and social games. CMGE stated that its purported "strong market reputation, scale of our business and distribution capability" enabled it to attract developers and source popular games. *See* CMGE 2012 Form 20-F at 65. CMGE stated in its 2012 Form 20-F:

> We believe the growth of our net revenues during historical periods was driven by the increase in the size of our total paying user base and the number of total subscriptions, which were, in turn, partly driven by an increase in the diversity and quality of our game portfolio. Our ability to continue to enlarge our portfolio with various attractive games that target different user types and games of different life cycles will be critical to our user base growth.

89. CMGE's 2013 Form 20-F was more explicit as the Company increased its

licensing of games, stating:

> We are dependent on our ability to license new games. We license many of our mobile games, including some of our most popular games, from third parties. In 2012 and 2013, we derived 17.6% and 50.9% of our net revenues, respectively, from games that were licensed from third parties including a small number of games that we purchased.

90. CMGE had only seven self-developed social games at the end of 2012, and twenty-one self-developed social games by the end of 2013. Game development is risky because it is difficult for game developers to know if a new game will become popular among the numerous mobile games on the market. As CMGE stated in its 2012 Form 20-F at 7:

> …many of our new games, especially social games, require significant build-up periods during which players are first introduced to the games and the rise in popularity of some games can be slow, if it happens at all. Thus, if a game that we anticipate gaining acceptance by our players fails to do so, we may not be able to realize this failure until several months after the game has been released, and if we do not introduce additional games to maintain our player base, the failure of recently introduced games to gain popularity could affect our ability to retain existing or attract new players. Further, if a build-up period coincides with the inevitable phasing-out period of our older games, the result could be a decrease in the number of total paying users or total subscriptions as well as revenue during that period.

91. The uncertainty of developing popular social games, in addition to the time and costs required to see that return on investment during the "significant build-up periods" would have been a major obstacle to CMGE's need to rapidly transition to social games. To stay competitive amidst the growing popularity of social games, CMGE would have to expand its social game portfolio through game licensing. Licensing existing games enabled CMGE to use third party developers to rapidly expand its portfolio with social games without the developmental risk and potential balance sheet losses if the game is not popular. As indicated in the 2013 Form 20-F, licensed games from third parties increased to account for over half of

CMGE's net revenues in 2013.

92. During this time of transition, CMGE also made the strategic decision to create a gaming distribution platform where players can download its games without going through third-party distributors. In October 2012, CMGE released Game Center, a proprietary application through which CMGE distributed self-developed and licensed games for Android-based smartphones. *See* 2013 Form 20-F at 11. The Game Center platform also allowed CMGE to build a community for social games, which were growing in popularity. *Id.* at ¶86.

93. The table below tracks the growth of CMGE's game portfolio, which in turn demonstrates CMGE's sudden and increasing reliance on licensed games, particularly social games.

CMGE Game Portfolio Growth				
	2011	**2012**	**2013**	**2014**
Social Games				
Self-developed games[1]	6	7	21	28
Licensed games[1]	0	0	51	55
Total new registered users[2]	12,701,493	21,460,178	113,075,858	230,785,097
Total paying user accounts[2]	809,407	303,613	7,686,498	21,125,926
ARPU (in RMB)[2, 3]	26.4	108.5	28.9	43.8
Social Game Revenue (as a % of Total Game Revenue)[4]	N/A	17.60%	62.90%	73.20%
Single-Player Games				
Self-developed games[1]	135	175	175	187
Licensed games[1]	256	315	470	481
Total paying user accounts[2]	29,040,203	31,665,050	13,711,235	18,454,732
ARPU (in RMB)[2, 3]	4.6	3.6	4.3	14.4
Average monthly active users[2]	N/A	N/A	12,911,847	36,710,230
Average daily active users[2]	N/A	N/A	1,692,976	4,739,578
Licensed game revenue (as a % of Total Game	N/A	17.60%	50.90%	52.30%

Revenue)[5]				
Total Game Revenue (in RMB)[1]	204,794,000	172,185,000	319,218,000	1,264,695,000
1 - 2014 Form 20-F at 47; 2013 Form 20-F at 45. 2 - 2014 Form 20-F at 3-5 3 - ARPU is the Average Revenue Per User. 4 - 2014 Form 20-F at 69; 2013 Form 20-F at 69. 5 - 2014 Form 20-F at 8; 2013 Form 20-F at 7.				

94. Below is a table showing CMGE's financial performance from 2011 to 2014. As illustrated in the table, CMGE was in a precarious financial position in 2012 with revenues dramatically declining during the transition period from feature phones to smartphones, and the associated rise of social games. CMGE's net income swung from RMB 163.3 million in 2011 to a net loss of RMB 17.5 million in 2012. The table below also shows the dramatic turnaround CMGE experienced after first "cooperating" with Ying and Zhongzheng in 2012, (formally entering into an agreement with Zhongzheng in March 2013 (*see* 2012 Form 20-F at 53)), hiring Ying (Zhongzheng's founder and CEO from 2009 to June 2013) as the President of CMGE's publishing division Joygame in June 2013, and promoting Ying to become the President of CMGE in October 2013. In 2013, CMGE had net income of RMB 23.6 million, which then shot up to RMB 227.9 million in 2014.

CMGE Financial Performance (in RMB)				
	2011	**2012**	**2013**	**2014**
Net Revenues[1]	243.5M	187.6M	353.0M	1,264.7M
% of revenue from VIEs and their subsidiaries[2]	21.20%	19%	43.60%	86.90%
% of revenue from smartphone games[3]	N/A	30.60%	79.90%	N/A
Net income (loss) attributable to shareholders[1]	163.3M	**(17.5M)**	23.6M	227.9M
Cost of revenues (games only)[1]	(79.3M)	(74.9M)	(124.5M)	(483.9M)
Gross Profit[1]	135.1M	95.9M	197.0M	780.8M

Gross Margin[4]	55.50%	51.10%	55.80%	61.70%
Total Operating Expenses[1]	(48.4M)	(148.3M)	(223.8M)	(563.4M)
Operating Income (loss)[1]	86.8M	(52.4M)	(26.8M)	217.4M
Cash and cash equivalents[1]	187.2M	128.7M	249.1M	349.3M
Accounts Receivable[5]	56.1M	41.7M	140.0M	553.2M
1 - 2014 Form 20-F at 3-4. 2 - 2014 Form 20-F at 22; 2013 Form 20-F at 21. 3 - 2013 Form 20-F at 11. 4 - 2014 Form 20-F at 88; 2012 Form 20-F at 103. 5 - 2014 Form 20-F at F-3; 2012 Form 20-F at F-3.				

95. The table above shows that CMGE relied heavily on licensing social games to meet consumer demand. Given that Zhongzheng operated or developed some of CMGE's most successful licensed social games, it is clear that CMGE needed a developer like Zhongzheng to transition from feature phones to smart phones and to develop social games.

96. Zhongzheng's success in game development is significant considering that only a small percentage of all social game users become paying users. Indeed, in its 2013 20-F, CMGE indicated that at most, less than 7% of its users in 2013 were paying users:

> We rely on a small portion of our total players for nearly all of our revenue.
>
> Compared to all players who play our games in any period, only a small portion are paying players. During the year ended December 31, 2013, we had 113.1 million new registered users of social games but only 7.7 million paying users of social games. In order to sustain our revenue levels, we must attract, retain and increase the number of players or more effectively monetize our players. We must devote significant resources to retain our players' interest in our games and attract them to our other games. If we fail to grow or sustain the number of our players, or if the rates at which we attract and retain players declines or if the average amount that our players pay declines, our business may not grow and our financial results will suffer.

97. Similarly, in 2014 Form 20-F, CMGE indicated that at most, less than 10% of its

users in 2014 were paying users:

> Only a small portion of all of the players who play our games are paying players. During the year ended December 31, 2014, we had 230.8 million new registered users of social games but only 21.1 million paying users of social games. In order to sustain our revenue levels, we must attract, retain and increase the number of players or more effectively monetize our players. We must devote significant resources to retain our players' interest in our games and attract them to our other games. If we fail to grow or sustain the number of our players, or if the rates at which we attract and retain players declines or if the average amount that our players pay declines, our business may not grow and our financial results will suffer.

VI. CGME's Relationship with Ying

98. Ying was a co-founder and CEO of Zhongzheng beginning in November of 2009 through June 2013. As Ying explained to CHINA DAILY, in 2012, Ying began "cooperating" with CMGE and CEO Xiao "as they faced the challenges of expanding in the large mobile game market, and Xiao at that time was transforming their business from feature phone to smartphone games and was building a new team for mobile games publishing." Zhang Yue, *CMGE Responds to Allegations of Questionable Business Practices*, CHINA DAILY (January 28, 2015), http://www.chinadaily.com.cn/business/tech/2015-01/28/content_19431772.htm (the "January 28 China Daily Article").

99. According to CMGE, the Company first entered into an agreement with Zhongzheng in March 2013, whereby Zhongzheng would purportedly help to promote and advertise CMGE's games. *See* 2012 Form 20-F at 53. However, CMGE mischaracterized the relationship in the 2012 Form 20-F. Zhongzheng was actually a game developer for CMGE, and thus entitled to significantly more share of royalties than a promotional or advertising relationship would indicate.

100. As Ying told CHINA DAILY, in June of 2013, he joined CMGE (as President of

CMGE's publishing division Joygame) to become one of the "team leaders" in mobile publishing. Shortly thereafter, in October 2013, Ying became President of CMGE. *See* 2013 From 20-F.

101. Suspiciously, and in violation of SEC disclosure requirements described above in ¶65, Defendants failed to disclose in any of their Class Period SEC filings' description of Ying's professional experience the fact that up until he started at CMGE, Ying was the founder, CEO, and controlling shareholder of Zhongzheng. Indeed, Defendants omit from the 2013 Form 20-F (incorporated by reference into the 2014 Offering Documents) any mention of Ying's role at Zhongzheng. CMGE actually made it appear that Ying had no occupation from 2008 until joining CMGE, with the entirety of his profile stating only:

> Shuling Ying became our president in October 2013. He has extensive experience in the licensing, publishing, operation and marketing of mobile games and helps manage our publishing business. Prior to joining our company, Mr. Ying served as a director of the investment division of Standard Chartered Bank Shanghai branch from 2006 to 2008.

102. A snapshot below of this same text from the 2013 Form 20-F shows the entirety of Ying's profile.

Shuling Ying became our president in October 2013. He has extensive experience in the licensing, publishing, operation and marketing of mobile games and helps manage our publishing business. Prior to joining our company, Mr. Ying served as a director of the investment division of Standard Chartered Bank Shanghai branch from 2006 to 2008.

103. On its face, this is unusual for two reasons. First, it is a clear violation of item 401(e)(1) of Regulation S-K, which requires registrants to "briefly describe the business experience during the past five years of each…executive officer…including: each person's principal occupations and employment during the past five years." The failure to include such required and known information strongly suggests that it was purposefully omitted. Second, his experience at Zhongzheng was highly relevant, and listing that experience would have explained to investors why Ying was being brought in after CMGE reported disappointing 2012 earnings

results. Instead, Ying's only work experience indicated in the description is two years as a director of a bank, which appears to be completely unrelated, and fails to support the claim that Ying has "extensive experience in the licensing, publishing, operation and marketing of mobile games."

VII. Zhongzheng Developed Games for CMGE, Including Its Key "Super Hero" Series

104. According to its SAIC filings, Zhongzheng was formed on November 5, 2009, and the registered scope of business includes technology development and technology development of mobile software platform.

105. However, in its 2012 Form 20-F, CMGE falsely portrayed its relationship with Zhongzheng, stating "in March 2013 we entered into an agreement with Shenzhen Zhongzheng Ruanyin Technology Co. Ltd., pursuant to which Zhongzheng Ruanyin will promote and advertise our games." 2012 Form 20-F at 53. But in reality, Zhongzheng helped CMGE develop, test, and publish certain games.

106. Confidential Witness Number ("No.") 1 ("CW1"), a former Zhongzheng employee confirmed that Zhongzheng's relationship with CMGE was one of game development. CW1 was employed by Zhongzheng in Shenzhen from approximately September 2013 through May 2015. During this time, CW1 was one of 20-30 employees primarily engaged in game testing for Zhongzheng. CW1 explained that CMGE outsourced game development, testing, and publishing to Zhongzheng. According to CW1, there were about thirty employees working in Zhongzheng's game development department, and CW1 personally assisted with the game development of several games for Zhongzheng, including the game Moshou Sanguo (which would later be marketed as having been developed by CMGE).

107. Below is screenshot obtained during the course of Plaintiffs' investigation on

July 18, 2016 from the mobile distribution platform, 7k7k.[6] On the page for the game Moshou Sanguo (Chinese characters: 魔兽三国), a game which former Zhongzheng employee CW1 helped to develop, 7k7k explicitly lists the game developer as CMGE (Chinese characters: 中国手游娱乐集团). This further shows that CMGE was representing games that Zhongzheng had developed, as CMGE's own games.

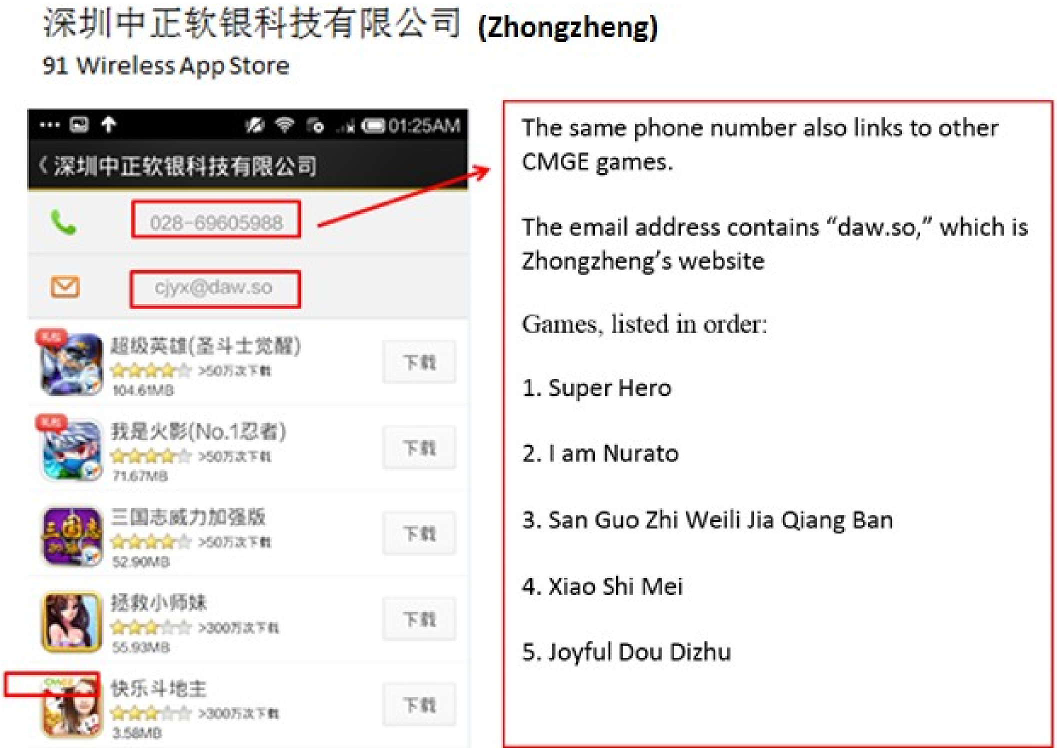
首页
分类
排行
破解版
礼包
评测
视频
攻略
问答
魔兽三国
Moshou Sanguo
下载游戏
360手机助手
腾讯手机管家
Developer: CMGE

108. Confidential Witness No. 2 ("CW2"), a former product developer at CMGE Beijing helped to found CMGE Beijing, which focused on game development, and reported directly to Ying at CMGE. CW2 worked for CMGE from approximately 2013 until shortly after Ying was terminated from CMGE in June 2014. CW2 thereafter followed Ying to Ying's new company Hero Entertainment Co. Ltd. ("Hero Entertainment"). According to CW2, Zhongzheng is a subsidiary of CMGE in Shenzhen that was also responsible for game development and publishing for CMGE. CW2 also stated that Chenghai Dan was one of the co-founders of

[6] *See* 7k7k website at http://www.7k7k.com/android/info/182377.html.

Zhongzheng.

109. The GeoInvesting Report revealed in a September 2014 search of Baidu's 91 Wireless App Store ("91 Wireless"), a major distribution channel for CMGE, that a number of CMGE games were listed after typing "Zhongzheng" (Chinese characters: 深圳中正软银)[7] into the 91 Wireless search function: Super Hero, I am Naturo, San Guo Zhi Weili Jiaqiang Ban, Xiao Shi Mei, Tian Tian Ying Xiong (Tiantian Hero), and Joyful Dou Dizhu. Below is a snapshot of the search from the GeoInvesting Report, with the name of the games translated.


深圳中正软银科技有限公司 (Zhongzheng)
91 Wireless App Store
01:25AM
深圳中正软银科技有限公司
028-69605988
cjyx@daw.so
超级英雄(圣斗士觉醒)
104.61MB
下载
我是火影(No.1忍者)
71.67MB
下载
三国志威力加强版
52.90MB
下载
拯救小师妹
55.93MB
下载
快乐斗地主
3.58MB
下载
The same phone number also links to other CMGE games.
The email address contains "daw.so," which is Zhongzheng's website
Games, listed in order:
1. Super Hero
2. I am Nurato
3. San Guo Zhi Weili Jia Qiang Ban
4. Xiao Shi Mei
5. Joyful Dou Dizhu

See Ex. A at 6.

110. The game "Super Hero" listed above under Zhongzheng was touted as one of CMGE's most successful games during the Class Period. As CMGE explained in its press

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[7] Zhongzheng's full name in Chinese characters is 深圳中正软银科技有限公司, but sometimes an abbreviation among the first six characters is used to indicate "Shenzhen Zhongzheng" (深圳中正) or "Zhongzheng Ruanyin" (中正软银).

release attached as Ex. 99-1 to its Report of Foreign Private Issuer filed on Form 6-K with the SEC on August 18, 2014 ("2Q 2014 Quarterly Report"), Super Hero was launched on May 20, 2014 for Android devices, and on June 12, 2014 for IOS devices. Super Hero was "extremely" successful, generating monthly billings of over RMB40 million (USD $6.4 million) per month. CMGE went on to state that "[t]otal net revenues were RMB274.6 million (USD $44.3 million), an increase of 281.4% from RMB 72.0 million during the same period last year and an increase of 27.9% from RMB 214.7 million in the prior quarter. **The sequential increase was mainly due to our continued success in our publishing business, namely the success of Super Hero."** CMGE attributed similarly strong sales in its Ex. 99-1 to its Report of Foreign Private Issuer filed on Form 6-K with the SEC on November 17, 2014 ("3Q 2014 Quarterly Report"), noting that "The *Hero* Series has been continually successful so far with *Super Heros* and *Tian Tian Ying Xiong*[8] becoming the drivers in the publishing business during the third quarter."

111. As the GeoInvesting Report further revealed (as shown in the screenshot copied below), and as Plaintiffs' Investigator confirmed, Super Hero was not merely "published" by Zhongzheng. Rather, the 91 Wireless app explicitly identifies Zhongzheng as the *developer and operator* of Super Hero. Since Zhongzheng developed Super Hero, one of CMGE's most successful games, it was entitled to 30% of the revenues of Super Hero, not merely an advertising fee as CMGE claims.

[8] The word "ying xiong" translates to "hero" in Chinese.

当前位置: > 91手游网 > 游戏库 > 超级英雄
超级英雄
Super Hero
开发商: 中正软银
运营商: 中正软银
语言: 中文
题材: 其他
更新时间: 2014-06-24
运行平台:
分享到:
Developer: "Zhongzheng Ruanying"
Operator: "Zhongzheng Ruanying"
218
176
好玩指数:8.6分

See Ex. A at 7.

112. Similarly, the GeoInvesting Report provided screen shots revealing that the 91 Wireless app explicitly identifies Zhongzheng as the developer and/or operator of two more CMGE games, Tian Tian Hero (*aka* Tian Tian Ying Xiong, part of CMGE's Hero Series described above in ¶109*)* and I am Naruto.

当前位置: > 91手游网 > 游戏库 > 天天英雄
天天英雄
Tiantian Hero
开发商: 掌趣科技
运营商: 深圳中正
语言: 中文
类型: 角色扮演
题材: 其他
收费: 道具收费
更新时间: 2014-09-15
运行平台:
Developer: Zhangqu Tech
160
114
分享到:
Operator: Shenzhen Zhongzheng
好玩指数:8.3分

当前位置： > 91手游网 > 游戏库 > 我是火影
我是火影
I am Nurato
开发商： 中正软银科技
运营商： 中正软银科技
类型： 角色扮演
收费： 道具收费
更新时间： 2014-06-27
运行平台：
Developer: Zhongzheng Ruanyin Science & Technology
Operator: Zhongzheng Ruanyin Science & Technology
176
190

See Ex. A at 7-8.

113. Below is another screenshot obtained during the course of Plaintiffs' investigation on July 13, 2016 from the mobile distribution platform, 97973.[9] On the page for the CMGE game "San Guo Zhi Weili Jiaqiang Ban" (Chinese characters: 三国志威力加强版), which was listed above in ¶109 as a Zhongzheng game on the 91 Wireless app), 97973 explicitly lists the game developer as Zhongzheng (Chinese characters: 深圳中正软银科技有限公司).

[9] *See* 97973 website at http://www.97973.com/android/sango.html.

安卓游戏榜
android.97973.com
iOS游戏排行榜
网游排行榜
页游排行榜
97973手游网
返回首页
Android
三国志威力加强版
San Guo Zhi Weili Jiaqiang Ban
进入论坛
游戏介绍：
OGWS
7.0
印象深刻
基本信息
更新：2014年7月16日
版本：1.5.1
语言：中文
大小：50.03MB
开发商：深圳中正软银科技有限公司
系统要求：Android 2.2或更高版本
Developer: Shenzhen Zhongzheng Ruanyin

114. In sum, Zhongzheng's own SAIC filings stated that Zhongzheng was a game developer (¶104), former CMGE and Zhonzheng employees CW1 and CW2 stated that Zhongzheng was a game developer for CMGE (¶¶106, 108), and mobile distribution platforms (such as 91 Wireless, 7k7k, and 97973) listed Zhongzheng as the developer or operator of various games – including several games CMGE publicly touted for their success. This demonstrates that Zhongzheng is a game developer and its relationship with CMGE went far beyond merely an advertising agreement.

VIII. While Numerous Facts Demonstrate that CMGE and Zhongzheng are Related Parties, Defendants Concealed Their Relationship

A. Ying Continued to Control Zhongzheng During the Class Period

115. Under GAAP, one example of a related party whereby such transactions must be

disclosed, includes a party that "controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests." *See* ¶44 (quoting SFAS No. 57 ¶24(f), ASC 850-10-20).

116. Defendants' decision to omit Ying's experience at Zhongzheng in their 2013 Form 20-F only becomes comprehensible when one realizes their true purpose: to conceal from investors that Ying continued to control Zhongzheng throughout the Class Period, and therefore to conceal CMGE's undisclosed related-party transactions with Zhongzheng.

117. As part of that effort, according to Plaintiffs' own investigation and review of the Zhongzheng's public filings and the GeoInvesting Report, Ying divested his formal 70.8% ownership of Zhongzheng and Jingzhi Sun ("Sun"), a former Vice President of CMGE publishing who worked closely with Ying at CMGE, divested Sun's formal 24.2% ownership of Zhongzheng in June 2013. However, Ying maintained control of Zhongzheng even after this divestiture, because 100% of Zhongzheng was transferred to his subordinate Juan Du, who was also the General Manager of CMGE's Publishing Support Center. The transfer of ownership to Juan Du is reflected in Zhongzheng's corporate filings:

深圳中正软银科技有限公司2013年6月6日的变更事项
Zhongzheng's Corporate Change on June 6, 2013
变更前法定代表人： 应书岭
变更后法定代表人： 杜娟
Legal Representative(Before Change): Shuling Ying
Legal Representative (After Change): Juan Du
变更前股东：
叶敏 25.0000(万元) 5.0000%
应书岭 354.0000(万元) 70.8000%
孙晶芝 121.0000(万元) 24.2000%
变更后股东：
杜娟 500.0000(万元) 100.0000%
Shareholder (Before Change):
Min Ye, 0.25 m 5%
Shuling Ying 3.54 m 70.8%
Jingzhi Sun 1.21 m 24.2%
Shareholder (After Change)
Juan Du 5 m 100%

See Ex. A at 10.

118. Plaintiffs' review of Zhongzheng's filings with Shenzhen AIC confirms the

transactions shown in the preceding paragraph in the GeoInvesting Report as reflected in the snapshot below. According to an amendment filed with Shenzhen AIC on June 6, 2013, in a resolution of the shareholders' meeting held on May 31, 2013, Ying, Jingzhi Sun and minority owner Min Ye transferred their ownership to Du, and all four of them signed the resolution.

转让前股权结构：

股东名称	出资额	出资比例
应书岭	354 万元	70.8%
孙晶芝	121 万元	24.2%
叶敏	25 万元	5%

转让后股权结构：

股东名称	出资额	出资比例
杜娟	500 万元	100%

119. The GeoInvesting Report's review of Zhongzheng's corporate filing also reflects that ownership was again transferred on February 14, 2014, from Juan Du to Chenghai Dan, who was also the Procurement Director of CMGE at the time:

深圳中正软银科技有限公司2014年2月14日的变更事项		Zhongzheng's Corporate Change on Feb 14, 2014
变更前法定代表人：	杜娟	Legal Representative(Before Change): Juan Du
变更后法定代表人：	但成海	Legal Representative (After Change): Chenghai Dan
变更前股东：	杜娟 500.0000(万元) 100.0000%	Shareholder (Before Change): Juan Du 5 m 100%
变更后股东：	但成海 475.0000(万元) 95.0000% 张旭 25.0000(万元) 5.0000%	Shareholder (After Change): Chenghai Dan 4.75 m 95% Xu Zhang 0.25 m 5%

See id.

120. Plaintiffs' review of Zhongzheng's filing with the Shenzhen AIC confirms the transactions shown in the preceding paragraph in the GeoInvesting Report as reflected in the snapshot below. According to an amendment filed with Shenzhen AIC on February 14, 2014, in a resolution of the shareholders' meeting held on January 21, 2014, Du transferred 95% of her ownership to CMGE Procurement Director Chenghai Dan, and the two of them signed the

resolution. According to CW2, in addition to Dan's role as high level CMGE management, Dan was one of the co-founders of Zhongzheng. Moreover, Juan Du and Chenghai Dan are a married couple.

转让前股权结构:

股东名称	出资额	出资比例
杜娟	500 万元	100%

转让后股权结构:

股东名称	出资额	出资比例
但成海	475 万元	95%
张旭	25 万元	5%

121. Even beyond Zhongzheng transfers detailed above, Plaintiffs' investigation has uncovered a number of close affiliations between Ying, Dan, and Du that is indicative of an ongoing and close relationship that further supports an inference that Ying effectively retained control of Zhongzheng even after his formal divestiture of his ownership interest. Although Juan Du was listed as a General Manager of CMGE in the June 2014 Termination Notice, a review of Chinese public databases indicates that as of April 2016, Du's registered employer became CMGE's subsidiary HuiYou Digital. As described below in ¶130, HuiYou Digital had the same registered address as Zhongzheng's registered address in its SAIC filings up until January 19, 2015. *See* Exhibit 4.9 to 2012 Form 20-F; Exhibit 4.17 to 2013 Form 20-F.

122. Additional close ties can be found between Ying, Dan, and Du's affiliated companies during and after the Class Period. According to the SAIC database and Shenzhen AIC filings, in addition to being listed as Zhongzheng's legal representative and 95% shareholder since February 14, 2014, Chenghai Dan was listed as the legal representative, shareholder, executive director and general manager of Chengdu Zhuoming Investment Co. Ltd. ("Chengdu Zhuoming"), which was incorporated on January 2, 2014. The email address listed as the company's contact person in Chengdu Zhuoming's 2015 annual report filed on March 2,

2016, is linked to Ying's new company Hero. A number of Du's affiliated companies are also affiliated with Ying, including Tianjin Dino Brother Asset Management LP ("Tianjin Dino Brother"), which underwent a private placement agreement with Ying's companies as described below, and two football club companies, Beijing Dino Brother Football Club Co. Ltd. and Tianjin Dino Football Club Co. Ltd. Ying is an investor in both of these football club companies and Du is listed as the corporate supervisor.

123. The SAIC database lists Du as the legal representative and a shareholder of Tianjin Dino Brother. Meanwhile the similarly named Tianjin Dino Investment was incorporated on March 4, 2015 with Ying as the sole shareholder and legal representative. On May 25, 2015, Beijing Sailsors Instruments Technology Co. Ltd. ("Beijing Sailsors"), passed a private placement agreement of 1,908,118 shares (less than 2%) to Du's Tianjin Dino Brother and 48,095,831 shares (about 45.9%) to Ying's Tianjin Dino Investment Management Co. Ltd. ("Tianjin Dino Investment") for RMB1.33 per share. After initiating the private placement agreement, Ying became the controlling shareholder of Beijing Sailsors, because Ying was the sole shareholder of Tianjin Dino Investment. Beijing Sailsors, which is listed on the national equity exchange NEEQ in China with the index code 430127, became Hero Entertainment on October 23, 2015, but the company's index code remained the same.[10]

124. Hero Entertainment is now a popular e-sports[11] gaming company in China, with Ying as the CEO. On November 20, 2015, Hero Entertainment announced that Huayi Brothers Media Corporation invested RMB1.9 billion in exchange for 20% equity of Hero Entertainment,

[10] *See* http://download.hexun.com/ftp/all_stockdata_2009/all/120%5C172%5C1201723916.PDF.
[11] According to the Chinese Game Publishers Committee, eSports includes massive online battle arena games, action, shooting, casual, poker and trading card games.

becoming the second largest shareholder after Ying's Tianjin Dino Investment.[12]

125. Moreover, a number of CMGE senior management identified in the June 2014 Termination Memo are now senior management of Hero Entertainment. This includes Juan Du (former CMGE General Manager, temporary Zhongzheng owner, and later employee of CMGE's subsidiary HuiYou Digital), Xinxin Du (former VP of CMGE), Kun Wang (former CMGE Zhuoxing Game's General Manager) and Bin Yang (former CMGE Vice General Manager of Overseas Publishing). *See* Ex. A at 2-3. The Hero Entertainment website indicates that Juan Du, Xinxin Du, Kun Wang, and Bin Yang are now part of Hero Entertainment's management team with Ying.[13]

126. Even after his formal divestiture of Zhongzheng ownership, Ying continued to exert control over Zhongzheng through Du and Dan. As indicated in the June 2014 Termination Notice and CMGE's June 20, 2014 press release, Du and Dan worked in the CMGE publishing division under Ying. Furthermore, as described above, Ying was closely affiliated with Du and Dan's other companies, and had engaged in another ownership transfer arrangement with Dan's affiliated company Tianjin Dino Brother and Ying's Tianjin Dino Investment. Clearly from these interactions, Ying acts a controlling force in Du and Dan's non-Zhongzheng businesses as well. Furthermore, Du received a 2% shareholder interest in Hero Entertainment on May 25, 2015.

127. Moreover, even if Ying was not secretly exercising control over Du and Dan, Zhongzheng was nonetheless a related party because Du and Dan were owners of Zhongzheng, and Du and Dan were "management" of CMGE during the Class Period. Therefore Zhongzheng was a related party of CMGE.

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[12] *See* http://quote.cfi.cn/ybdata.aspx?id=501341848521; http://www.yingxiong.com/news/577.html.

[13] *See* http://www.yingxiong.com/about.html.

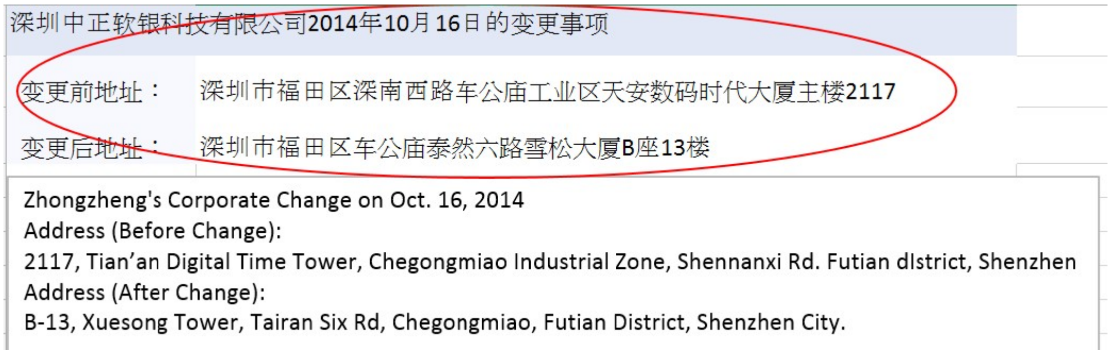
B. Numerous Additional Facts Demonstrate the Close Relationship and Affiliation between CMGE and Zhongzheng

128. The GeoInvesting Report found additional connections between Zhongzheng and CMGE. On the website for CMGE's publishing division Joygame, the e-mail address of Shuzhong Min, the CMGE General Manager listed in the June 2014 Termination Memo, ends in "daw.so," which is the domain name of Zhongzheng's website:

daw.so
首页<<合作联系
合作方式
游戏接入
@daw.so
商务合作
华南地区：logan@daw.so
华北地区：caiqi.cui@daw.so
(Right) Zhongzheng's website: daw.so and (left) the listed e-mail address on the Joygame website bearing the same domain name.
CENTRAL HOLDINGS
中正软银科技有限公司

See Ex. A at 12.

129. As further evidence that the relationship between CMGE and Zhongzheng goes well beyond an advertising agreement, the GeoInvesting Report showed that on October 16, 2014, Zhongzheng changed its registration address to B-13, Xuesong Tower, Tairan Six Rd, Chegongmiao, Futian District, Shenzhen City. Plaintiffs' Investigator accessed the Shenzhen AIC database and confirmed the address change:


深圳中正软银科技有限公司2014年10月16日的变更事项
变更前地址： 深圳市福田区深南西路车公庙工业区天安数码时代大厦主楼2117
变更后地址： 深圳市福田区车公庙泰然六路雪松大厦B座13楼
Zhongzheng's Corporate Change on Oct. 16, 2014
Address (Before Change):
2117, Tian'an Digital Time Tower, Chegongmiao Industrial Zone, Shennanxi Rd. Futian dIstrict, Shenzhen
Address (After Change):
B-13, Xuesong Tower, Tairan Six Rd, Chegongmiao, Futian District, Shenzhen City.

See Ex. A at 10-11.

130. This address is exactly the same address listed as CMGE's WFOE (described in the 2012 20-F as CMGE's subsidiary) Huiyou Digital. *See* Exhibit 4.9 to 2012 Form 20-F; Exhibit 4.17 to 2013 Form 20-F. Furthermore, when GeoInvesting visited Zhongzheng's new office in November 2014, it carried CMGE's sign:

11B 深圳回忆科技有限公司
11DE 深圳市四海卓运国际货运代理有限公司
11DE 深圳市特速金融服务有限公司
12B 深圳市海格金谷化工科技有限公司
12D 深圳市鸿福餐饮管理有限公司
12D 汕头市鼎福投资有限公司深圳办事处
13ABCDE CMGE中国手游
14DE 深圳市博亚时代科技有限公司
15ABC 深圳市科特科技股份有限公司
16A 深圳市卓盟科技有限公司
16B 新宇明通讯(香港)有限公司
16D 深圳市西莓移动科技有限公司
16C 深圳市中创富投资发展有限公司
16E 厦门日懋城建园林建设股份有限公司深圳分公司
CMGE

See Ex. A at 11.

131. On January 19, 2015, a mere two business days after the GeoInvesting Report was published, Zhongzheng's SAIC filings were amended to reflect an address change from CMGE's office to a virtual office located at 1801-37, North Tower, Cangsong Building, Tairan Six Rd., Futian District, Shenzhen City. On January 26, 2015, GeoInvesting LLC published a second research report on *SeekingAlpha.com* to follow up on their initial report (the "Second GeoInvesting Report"), which is attached hereto in full as Exhibit E. The Second GeoInvesting Report revealed that Chenghai Dan was still the legal representative of Zhongzheng, and when GeoInvesting, LLC visited Zhongzheng's new office location, it found a floor with a 53-unit

office suite devoid of any signage or other indication of Zhongzheng's presence throughout the suite. Indeed, none of the units were numbered or labeled and the space had the generic and empty office appearance typical of a virtual office. *See* Ex. E at 4. GeoInvesting, LLC concluded from the observation that Zhongzheng leased a single 126 square-foot unit within the 53 units of the suite. *See id.*

132. Plaintiffs' Investigator's review of Zhongzheng's Shenzhen AIC filings confirmed that Zhongzheng changed its registered address in its SAIC filings on January 19, 2015 to 1801-37, North Tower, Cangsong Building, Tairan Six Rd., Futian District, Shenzhen City. Plaintiffs' Investigator's review found that the unit is located within several service offices managed by Shenzhen City Chuangfu Business Services Co., Ltd. On January 30, 2015, Plaintiffs' Investigator visited the 1801-37, North Tower address and found a generic office entrance devoid of any signage. The receptionist for the entire 1801 suite stated that Zhongzheng and Defendant Ying occupied one unit within the 53-unit suite. However, the receptionist stated that neither Ying nor a single employee of Zhongzheng was actually present in the virtual office.

IX. CMGE Knew or Recklessly Disregarded that Zhongzheng Was a Related Party

133. In its 2013 Form 20-F, CMGE discusses its standardized and exhaustive mobile game licensing process as follows:

> **When choosing which games to license, we typically engage a set of standardized procedures. First, we visit the game developer and watch a demonstration version of the mobile game. We then request and review the legal documentation showing that the game developer is the rightful holder of the intellectual property with respect to the game.** We then conduct an internal evaluation into whether to license the game. **Our vice president in charge of our publishing business is personally involved in the assessment and approval process.** When choosing whether to license a game we consider the following factors:

> - originality of game concept;
> - market trends and consumer demand;
> - quality of game execution; and
> - the mobile game developer's proposed contractual terms, including revenue sharing and exclusivity.
>
> **If we decide to license the game we will then begin contractual negotiations with the game developer to clarify the terms of the arrangement and revenue sharing.**
>
> This selection process has been successful in the past. **For example, we were able to recognize and license *San Guo Zhi Weili Jiaqiang Ban*, a game developed by a small team of only 15 developers, which has since achieved strong market success.** A number of our other games that we have licensed from mobile game developers have been ranked in the top 10 in terms of total downloads on major app stores and gaming platforms.
>
> Once we have successfully entered into an agreement to license a game, we refine the game using our prior game development experience. Our specialized game designers work with the developers of that game to improve graphics, storylines and operational integrity. We also use our sophisticated testing system to minimize game flaws before launch and to ensure smooth operation of the game. We believe that this process increases player enjoyment and monetization of our licensed games.

(Emphasis added).

134. The above statements indicate that the level of CMGE's involvement in refining their licensed games, improving the graphics and storyline, ensuring operational integrity, testing, and the personal involvement of the vice president of publishing indicates that Defendants CMGE conducted thorough and personalized due diligence on the game developer and rightful ownership for every game that CMGE licensed. Thus, Defendants were on notice that certain licensed games were developed by Zhongzheng, and in their due diligence, should have determined that Zhongzheng was a related party when Ying was named President. Moreover, even if Defendants were somehow unaware that Zhongzheng was a related party in

June 2013, CMGE's continuous close involvement with each of its third-party developers including Zhongzheng is indicative of an ongoing relationship, whereby Defendant would have eventually learned of Zhongzheng's related party status. Ying's continued control of Zhongzheng through his affiliates (who were also CMGE management) throughout the Class Period (as detailed in ¶¶117-126, *supra*), obligated Defendants to disclose that Zhongzheng was a related party.

135. Furthermore, according to the June 2014 Termination Memo (announcing the dismissal of Ying and eight other senior managers of CMGE in June 2014), the vice president in charge of CMGE's publishing business was Jingzhi Sun, who worked closely with Ying, who was head of CMGE's publishing business. Clearly Ying and Sun's publishing roles at CMGE would have made them familiar with Zhongzheng's role as a game developer in their due diligence process, but they already had this knowledge as Zhongzheng's controlling shareholders (not to mention Ying's role as founder and CEO). Ying was a 70.8% shareholder and legal representative of Zhongzheng and Sun had 24.2% ownership of Zhongzheng until June 6, 2013, as Ying was about to join CMGE, and Ying and Sun both transferred their entire ownership of Zhongzheng to Ying's subordinate Juan Du (as described in more detail above in ¶117-118).

136. Moreover, San Guo Zhi Weili Jiaqiang Ban, the licensed game Defendants specifically identified above in CMGE's 2013 Form 20-F as a model example of a game which underwent CMGE's "standardized" licensing selection process to "strong market success", is the same game identified in ¶¶109, 113 that listed Zhongzheng as its developer on the 97973 game distribution platform and was listed after searching for Zhongzheng on the 91 Wireless app.

137. Defendant Ying stated that he began "cooperating" with CMGE and Xiao in 2012 "as they faced the challenges of expanding in the large mobile game market, and Xiao at that

time was transforming their business from feature phone to smartphone games and was building a new team for mobile games publishing." Zhang Yue, *CMGE Responds to Allegations of Questionable Business Practices,* CHINA DAILY (January 28, 2015), http://www.chinadaily.com.cn/business/tech/2015-01/28/content_19431772.htm. Accordingly, it would not make sense that Xiao approached Ying, the CEO of Zhongzheng, to merely help with advertising if as Ying himself explained, he was being tapped to face CMGE's challenging transition to games for smartphones and to "build[] a new team for mobile games publishing.".

138. Therefore, pursuant to their due diligence and contractual negotiation process and Xiao's personal experience "cooperating" with Ying in 2012, Defendants knew or should have known that Ying was the founder and CEO of Zhongzheng from 2009 until June 2013, when Ying became President of CMGE's publishing division Joygame.

139. However, CMGE failed to disclose that Zhongzheng was a related party, or to consolidate Zhongzheng as a controlled VIE. Confidential Witness No. 3 ("CW3"), a former director of business development for CMGE from November 2013 to March 2016, stated that Zhongzheng functioned as a subsidiary of CMGE. Additionally, CW1 and CW2 also stated that Zhongzheng functioned as a subsidiary of CMGE.

140. In October 2013, just four months after being hired as President of CMGE's publishing division Joygame, Ying was named President of CMGE. Even though Ying joined CMGE in June 2013, Defendants never mentioned Zhongzheng at any point in the 2013 Form 20-F, even in Ying's background section, which was required to disclose his last five years of business experience. In CMGE's 2014 Form 20-F filed *after* this Action commenced and the GeoInvesting Report exposed Ying's role and ownership of Zhongzheng, Defendants finally provide the required disclosure of Ying's experience admitting he was the founder and former

CEO of Zhongzheng from 2009 to June 2013 in his biography. *See* 2014 Form 20-F at 99. However, there was no disclosure of transactions with Zhongzheng as a related party, an advertising agreement, or otherwise.

141. Defendant Xiao hired and then promoted Ying because CMGE needed Zhongzheng to meet the market's increased demand for social games for smartphones. Certainly, Defendants would have been aware that the Company's rapid turnaround was the result of a continuing relationship with related party Zhongzheng that was required to be disclosed. It is no coincidence that CMGE's revenues increased from RMB187.6 million in 2012 to RMB353 million in 2013, as the amount of revenue from licensed games increased from 17.6% to 50.9%, smartphones revenue increased from 30.6% of revenues in 2012 to 79.9% in 2013, and social games revenue increased from 17.6% of revenue in 2012 and 62.9% in 2013. *See* 2013 Form 20-F at 3, 7, 11.

X. CMGE Likely Kept Zhongzheng Off its Books to Avoid PRC Regulations

142. Understanding PRC regulations provides insight into why Defendants went through such trouble to conceal their relationship with Zhongzheng. As discussed in CMGE's 2013 Form 20-F, the PRC government restricts foreign investment in telecommunication, electronic and Internet publishing and online cultural businesses. Therefore, a foreign investor must establish a foreign equity joint venture with a PRC partner to invest in telecommunications industry. A foreign-invested telecommunications enterprise ("FITE"), is allowed to be engaged in basic telecommunications business and value-added telecommunications business but the FITE's ultimate equity holding percentage in a value-added telecommunications business may not exceed 50%. To comply with these restrictions, CMGE conducted a significant portion of its business activities through its VIE, Yingzheng in 2012. *See* 2013 Form 20-F at 20, 57.

143. As indicated in CMGE's 2013 Form 20-F, as an offshore holding company, CMGE relies on dividends from its subsidiaries in China for its cash requirements, including to pay dividends or make other distributions to its shareholders or to service its debt and to pay its operating expenses. PRC regulations limit the subsidiaries to paying dividends only out of their accumulated profits, if any, as determined in accordance with PRC accounting standards and regulations. In addition, the PRC subsidiaries are required each year to set aside at least 10% of their annual after-tax profits (as determined under PRC accounting standards) into a statutory reserve fund until the aggregate amount of that reserve reaches 50% of such entity's registered capital. These reserves are not distributable as cash dividends. Any limitation on the ability of CMGE's subsidiaries to distribute dividends or other payments to it could materially and adversely limit its ability to grow, make investments or acquisitions, pay dividends and otherwise fund and conduct its business. *See* 2013 Form 20-F at 28.

144. CMGE's 2013 Form 20-F also notes that China places statutory limits on loans that CMGE, as an offshore holding company, can give to its subsidiaries. The limits are based on the gap between the registered capital and the total amount of the investments in such subsidiaries, and must be registered with the State Administration of Foreign Exchange ("SAFE") or its local counterparts. Furthermore, any capital contributions CMGE makes to its PRC subsidiaries must be approved by the Ministry of Commerce ("MOFCOM") or its local counterparts. As described in CMGE's 2014 20-F, the same regulations were in effect for 2014 as well.

145. CMGE explained its regulatory restrictions in its 2013 Form 20-F as follows:

> Under the current PRC law and policies regarding foreign direct investment and foreign debt, there are only limited means for an offshore company to provide financial support to a domestic PRC company. Currently, the only way that 3GUU BVI and China Wave are able to provide financial support to Yingzheng

> and Lanyue is by providing a guarantee for Yingzheng and Lanyue to secure RMB loans from a bank within the PRC, if Yingzheng and Lanyue can meet the criteria set out in the detailed guidance issued by SAFE under the Administrative Measures on Foreign Debts Registration effective from May 13, 2013. Furthermore, pursuant to the Administrative Measures on Foreign Debts Registration, 3GUU BVI's and China Wave's provision of guarantees to Yingzheng and Lanyue, respectively, is subject to approval from SAFE, which has broad discretion whether to grant approval and which approval will specify the maximum loan amount that Yingzheng and Lanyue can obtain using the guarantee. We may not be able to obtain approval from SAFE or the other required authorities on a timely basis, or for the amount required by Yingzheng and Lanyue using the guarantees, or at all, which could impact our ability to provide financial support to Yingzheng and Lanyue.

(Emphasis added).

146. As described in ¶94, *supra*, CMGE's revenues plummeted in 2012 during the rapid transition from feature phones to smartphones, which required quick action and investment to stay competitive. In response, CMGE ramped up its spending to meet consumer demand. CMGE's operating expenses primarily consist of selling expenses, general and administrative expenses and research and development expenses. CMGE stated that its research and development expenses increased by 54.7% from 2012 to 2013 "primarily because of increased research costs to support our transition into developing a greater number of smartphone social games." 2013 Form 20-F at 95. CMGE's selling expenses[14] also increased from 2012 to 2013 due to an expansion of online advertising related to "our transition to developing and publishing a greater number of smartphone games, which are generally downloaded through various online platforms, rather than being pre-installed on handsets, as is the case for feature phones." *Id.* at 73.

147. As a result of these investments to support CMGE's transition to smartphone

[14] CMGE's selling expenses primarily consist of (i) user acquisition fees paid to web platforms, app stores and advertising agents who promote its games on a variety of platforms, and (ii) costs of marketing activities, including cost of advertising in industry publications and through traditional media and cost of hosting events and exhibitions related to its games.

games, CMGE was operating at a loss in 2012 and 2013. CMGE went from having operating income of RMB86.8 million in 2011 to an operating loss of RMB52.4 million in 2012 and an operating loss of RMB26.8 million in 2013. Operating income (or loss) represents total net revenues minus the cost of revenues and operating expenses. *See* 2013 Form 20-F at 3. CMGE also showed a net loss of approximately RMB14.5 million in 2012 and net income of RMB26.8 million in 2013. Net income (or loss) takes into account interest and other income, changes in fair value of contingently returnable consideration assets, and income taxes. *See id.* CMGE's improvement in net income in 2013 was mostly attributable to increased revenues and a substantial increase in other income due to a gain on the disposal of Douwan, a CMGE subsidiary. *See id*. at 3, 95.

148. Although it was necessary for CMGE to rapidly transition its business from feature phones to smartphones and focus on social games, this switch would have been impeded by these strict PRC regulations limiting the amounts of loans, guarantees, or direct investments that CMGE could make. In addition, CMGE would have needed to obtain approvals from various PRC regulatory agencies which posed a substantial risk of delay. Furthermore, CMGE was dependent on dividends from its subsidiaries to pay for its operations, debt service, and dividends to shareholders. However, CMGE's subsidiaries were only allowed to pay these dividends out of their accumulated after-tax profits, 10% of which had to be held in reserve.

149. To circumvent these cumbersome regulations, CMGE hired Defendant Ying in June 2013, who maintained control over game developer, Zhongzheng. By the end of 2013, CMGE began to see the benefits of bringing in Ying and Zhongzheng develop and publish the social games it needed. In 2014, the Company enjoyed a full turn-around, reporting operating income of RMB217.4 million and net income of RMB227.9 million.

150. By concealing the relationship and failing to consolidate Zhongzheng as a VIE, Defendants avoided the uncertainty and potential delays that Defendants would have likely encountered if CMGE had to seek approval from PRC regulatory authorities. Defendants' concealment permitted their investment and dependence on Zhongzheng without having to deal with PRC restrictions on foreign ownership and allowed Defendants to collect revenue without being subject to restrictions on dividend payments from subsidiaries. Had CMGE been forced to limit its investment in Zhongzheng, CMGE may have lost market share and slowed its transition during this pivotal moment. According to Confidential Witness No. 4 ("CW4"), an industry expert that has been engaged in the PRC IT industry for over fifteen years, including more than ten years of experience in game development and publication, Chinese game publishers often set up secret game development companies, and only choose to integrate the developer into the game publisher's own public books later on if the development company performed well. By properly timing the integration of these off-books companies, publishers are then able to "smooth out" negative financial data in other parts of the business. Furthermore, as the GeoInvesting Report theorized, CMGE could be substantially overstating its revenues through Zhongzheng since it is kept of CMGE's public books as a private company.

151. According to Chinese news reporter from 21st Century Business Herald ("21st Century"), a main unwritten rule in the mobile gaming industry is that game publishers take kickbacks from developers when signing contracts because "there are too few good products." *See* An Lifen, *Industrial Grey Area Shown in CMGE Dismissal of 9 Executives, 4 A Shares Involved*, 21ST CENTURY BUSINESS HERALD (June 24, 2014), http://finance.sina.com.cn/stock/usstock/newstock/20140624/022019499239.shtml ("June 24th 21st Century Article").

152. Less than a year after Ying joined CMGE (with Zhongzheng), CMGE purportedly

became the largest publisher of mobile games in China, boasting a market share of 17.9% of all gross billings. *See* 2013 Form 20-F at 43. By December 31, 2013, 51 of the Company's 72 social games were licensed from third party developers and 470 of the Company's 645 single-player games were licensed. *See id.* at 45. Given this success, in 2013, the Company's licensing business brought in 50.9% of the Company's total net revenues. *See id.* at 7. This was more than a 289% increase from the 17.6% share of revenues in 2012. *See id.*

153. The success of the Company's publishing business became so integral that CMGE warned in its 2013 Form 20-F, "[w]e are dependent on our ability to license new games. . . . Choosing which games to license requires a high degree of judgment and we cannot guarantee that the games we license will generate profit. The failure of a particular licensed game may result in a significant write-down or write-off of game licensing fees."

154. In addition to maintaining an ongoing undisclosed relationship with Zhongzheng, CMGE also engaged in bribery. According to Confidential Witness No. 5 ("CW5"), who was employed by CMGE as a marketing manager in the Shanghai office of the Company's subsidiary Chengdu Zhuoxing Science & Technology Co., Ltd. ("Zhouxing") from at least June 2013 to January 2015, the Company's primary sales channels were Baidu 91 Wireless, Qihoo 360 Mobile Assistant, and Tencent. In order to maintain the relationships with these distributors, CW5 explained that CMGE required employees, including CW5 personally, to regularly give out cash gifts in "red envelopes" to important connections during events such as the Chinese Lunar New Year holiday.

155. The phrase "red envelope" is a literal translation of the Chinese term "hongbao" which refers to the red colored envelopes traditionally used to give cash gifts in China. In fact, according to a mobile game operator interviewed by 21st Century, "[c]urrently in mobile gaming

'channels are king' is still the case. With volume you are on top, and if they have a strong position, all of the developers will curry favor with them, and they often hand over a little money." *See* June 24th 21st Century Article. According to the Chinese press, Ying did just that.

156. It is well known that "[b]ribes, often handed over in stylized red envelopes called hongbao, are endemic in China." Rachel Lu, *How to Bribe a Chinese Official*, THE ATLANTIC (July 8, 2013), http://www.theatlantic.com/china/archive/2013/07/how-tobribe-a-chinese-official /277581. According to one source to the SEC, "these [red envelopes] are used to give cash to anyone and the word is synonymous with bribe" and in order to do business in China, the practice is "very common, in fact not too far off essential in some cases[.]" Thomas Fox-Brewster, *Inside Sony's Mysterious 'Red Pockets': Hackers Blow Open China Bribery Probe*, FORBES (Dec. 13, 2014), http://onforb.es/1yNdUso.

157. CMGE was no exception to this common practice. Both Sina and 21st Century reported that they were told by CMGE employees that Ying transferred CMGE resources to Skymoons, a company founded by 91 Wireless's Vice President He Yunpeng, and received Skymoons stock. *See* June 20th Sina Article; Luo Man, *Behind the Scenes of Dismissal of 9 CMGE Executives, May Involve Corrupt Group*, 21st Century Business Herald (June 23, 2014), http://xw.qq.com/finance/20140623070853. ("June 23rd 21st Century Article").

158. With Ying's success came tension with Xiao. As Confidential Witness 6 ("CW6"), who was a senior product manager at CMGE's product center, overseas product division from January 2014 to January 2015 reports, Xiao and Ying's operations were independent, and the two were in competition. According to CW6, after June 2014, all large payments must receive the approval of several managers in the headquarters' finance department (which is Xiao's team) before being paid out, but prior to June 2014, payments did not have to

pass through Xiao's team.

XI. The Truth Begins to Emerge

159. In June of 2014, Xiao removed Ying from his position as President of CMGE. On June 19, 2014, news outlet Sina.com published an article entitled "Structural Adjustments at CMGE: President Ying Shuling Dismissed." The article announced that Sina had obtained an internal CMGE memo revealing that the Company removed the following nine employees from their positions with the Company: (1) President Ying; (2) Vice President Jingzhi Sun; (3) Vice President Xinxin Du; (4) Chenxing Game General Manager Shuzhong Min; (5) Zhuoxing Game General Manager Kun Wang; (6) Publishing Support Center General Manager Juan Du; (7) Overseas Publishing Group Vice General Manager Binhai Yang; (8) Platform Support R&D Center General Manager Assistant Xiaoping Luo; and (9) Procurement Director Chenghai Dan. Five of these employees were previously or currently shareholders of or otherwise involved with Zhongzheng and according to an article issued by Chinese blog CANSLIM on June 19, 2014 entitled, "An Analysis of the Executive Dismissal at CMGE," "all of the principals of the publishing team were dismissed, and everyone in departments related to Ying Shuling were dismissed[.]"

160. The June 2014 Termination Memo, with English annotations, is reproduced in full in the GeoInvesting Report. *See* Ex. A at 2-3.

161. The Sina article noted that the following replacements will be made:

> After the adjustment, CMGE Group CEO Xiao Jian took over all of CMGE's publishing lines, Group Vice President Liang Yan helped take over the platform support business for the publishing lines, Group CHO Li Tao took over HR, administration, and purchasing for the publishing lines, and Li Hui took over finances for the publishing lines. Based on the content of this adjustment, CMGE mainly adjusted the executives for its publishing and product businesses.

162. In addition to replacing all of the executives in the publishing department, Sina noted that the Company "made major adjustments in the structure of its publishing line" by breaking up the "formerly complex organizational structure of the publishing support center" and requiring that "managers for all business lines in the gaming business" report directly to Xiao. *See* June 20th Sina Article. This change included Xiao reclaiming control of personnel and finance decisions in the publishing department. *See id.*

163. On June 19, 2014, a report issued by analysts at Nomura International (Hong Kong) Ltd. ("Nomura HK") revealed that CMGE disclosed in a conference call that it had removed nine senior managers, including Ying, from their positions, for involvement with bribery. Plaintiffs have been unable to locate a transcript or recording of this call either through CMGE's investor relations site or a search of the Bloomberg financial database.

164. In response to this news, the price of CMGE ADS dropped $4.57 per ADS, or more than 24%, to close at $14.33 per ADS on June 20, 2014. The Company almost immediately began backtracking from this statement, claiming that they were unaware of any bribery. But significantly, Defendants never publicly denied that they had provided such information to Nomura HK.

165. On June 20, 2014, CMGE issued a press release entitled "China Mobile Games and Entertainment Group Limited Announces Organizational Restructuring and Employee Changes in Game Publishing Business" in which the Company provided the following explanation of its removal of nine publishing employees:

> To make the Company more efficient and competitive and to continue producing high quality and innovative products, and to ensure the Company is positioned to be profitable and achieve sustainable growth, the chief executive officer has been tasked with conducting organizational reviews and structural realignments. As

> part of the organizational restructuring of its publishing business, on June 19, 2014 the Company removed nine employees from their positions in the publishing business, including Mr. Ying. The Company notes that these employees are awaiting reassignments within the Company. The Company does not expect this restructuring, including the personnel changes, to have a material adverse impact on the Company's overall operations. The Company expects the restructuring will enhance its productivity, helping to strengthen its leading market position.
>
> The Company is aware of market speculations about the reasons for the restructuring, including allegations of employee misconduct, which have led to significant fluctuations in its ADS price. The Company announces that today its board of directors has authorized an independent committee, consisting solely of independent directors, to look into the market speculations. In order to provide a high level of transparency to its shareholders, the Company will update shareholders on the results of its findings.

166. In the following days, Chinese media interviewed CMGE employees and reported that the removal of senior employees was linked to bribery or a related-party transaction.

167. On June 20, 2014 and June 23, 2014, Sina and 21st Century reported, respectively, that employees of CMGE said that Ying engaged in improper transactions with other companies by exchanging CMGE resources for shares in other companies. One company mentioned is Skymoons, founded by former 91 Wireless Vice President He Yunpeng. *See* June 20th Sina Article; June 23rd 21st Century Article. Skymoons is a top Chinese game developer.

168. On June 24, 2014, 21st Century, published an article regarding the CMGE firings entitled "Industrial Grey Area Shown in CMGE Dismissal of 9 Executives, 4 A Shares Involved[.]" According to the article, "a mobile gaming operator in Beijing said, 'The main reason Ying Shuling and the others were dismissed may have been related to taking kickbacks when signing products[.]'"

169. On June 25, 2014, Nomura HK issued a follow-up analyst report discussing the information it received from CMGE during a call Nomura HK had with the Company. The report

states:

> 1. Eight of the nine suspended mangers were not as senior as we believed and have been reinstated in different functions pending the report of the independent committee appointed by the company.
> 2. Mr. Ying Shuling, the former president, remains employed by the company pending assignment of a new role.
> 3. The company clarifies that, notwithstanding market speculation about the involvement of the nine managers in illegal activity, it will await the report of the independent committee before making any conclusion and that it has not reached any conclusion.

170. In its press release issued on June 26, 2014 entitled "China Mobile Games and Entertainment Group Limited Strongly Rejects Recent Allegations," CMGE continued to insist that the employees were removed as part of a "restructuring," stating:

> Our CEO Mr. Xiao Jian believes that Mr. Ying Shuling and the other 8 executives job reassignments would be better utilized in other capacities. To the best of the Company's knowledge, the Company is currently unaware of any evidence of bribery. Nevertheless, in order to provide the highest level of transparency to its shareholders, the independent committee has been formed to look into and address the market speculations circulating in the market. An external law firm will be appointed to assist the independent committee. The Company will announce further update on the results of its independent committee's investigation.

171. Notably, while it denied that it was aware of bribery, CMGE did not deny that it told Nomura that the executives were removed for bribery.

172. Despite CMGE's reasoning for the removal of the employees, many in the industry pointed out that "such a major personnel action was unprecedented," "there are only such rare executive earthquakes when there is extremely serious internal corruption or struggles between internal factions." June 23rd 21st Century Article. A reporter for TMTpost reiterated the same stating that "[t]his can be called one of the major 'earthquakes' in the history of the mobile gaming industry" as "[t]he collective dismissal of nearly 50% of executives—such a 'drastic, resolute' method can only happen from an extremely serious case of internal corruption

or internal struggle." Ding Daoshi, *Behind the Simultaneous "Removal" of 9 Executives at CMGE*, TMTPOST (June 20, 2014), http://www.tmtpost.com/117296.html.

173. On August 14, 2014, CMGE announced in a press release entitled "CMGE Announces Completion of Investigation by Independent Committee" that its independent investigation of the bribery allegations was completed and explained that "[t]he independent review included interviews with relevant personnel and a review of documents, digital information and data extract through procedures recommended by Simpson Thacher. The foregoing investigation did not find any evidence that suggested CMGE or anyone at CMGE had engaged in bribery."

174. Four days later, on August 18, 2014, CMGE issued a press release entitled "CMGE Announces Appointment of New Chief Operating Officer and Management Share Repurchase" announcing that Ying had been appointed COO of CMGE and that he and Xiao intended to repurchase RMB 10 million each of the Company's ADSs in order to "reflect the confidence that we have in CMGE's future and our ability to drive long term growth." The press release stated, in relevant part:

> [T]he Company has been informed that Mr. Ying and Mr. Ken Jian Xiao, our CEO and Director, intend to individually purchase RMB10 million each of the Company's American Depositary Shares ("ADSs"). The Company has been informed that the repurchases will be made in the open market at prevailing market prices or through privately negotiated transactions. The timing and extent of any purchases will be determined by Mr. Ying and Mr. Xiao and may depend upon market conditions, the trading price of ADS and other factors. Mr. Xiao and Mr. Ying have informed the Company that the share repurchases will be completed within two months of this press release and will be financed with their own personal funds.

175. According to Confidential Witness 7 ("CW7"), who was employed by CMGE as a sales manager and director in the Shenzhen office of the Company's subsidiary Lanyue from

September 2012 until November 2014, the nine employees who were removed on June 19, 2014 were all Ying's senior staff in the publishing division who were very talented. CW7 stated that the Defendants decided after-the-fact to reappoint the employees because it required their expertise.

XII. CMGE Post-Class Period Statements Still Fail to Disclose The Details of Its Relationship To Zhongzheng

176. On January 16, 2016, in a feeble attempt to disclaim the GeoInvesting Report allegations, CGME issued a press release stating:

> Neither the Company nor, to the best of the Company's knowledge, any member of its management controls Shenzhen Zhongzheng Ruanyin Science & Technology Co., Ltd. ("Zhongzheng"), a mobile game advertising agent in China and the company at the center of the short seller's allegations. The Company's transactions with Zhongzheng have been conducted and will continue to be conducted in the ordinary course of business and on an arm's length basis. Moreover, the Company's revenue derived from business with Zhongzheng for the first three quarters of 2014 accounted for less than 1.0% of the Company's total revenue for the period, and payments made to Zhongzheng for the first three quarters of 2014 accounted for approximately 3.0% of the Company's operating expenses for the same period.

177. This statement merely claims that Zhongzheng's revenues and expenses are immaterial and fails to refute any of the GeoInvesting Report's specific allegations that Ying was CEO of Zhongzheng, that Zhongzheng is a related party, that ownership was transferred to Ying's subordinates, who were also CMGE senior managers, and that that Zhongzheng developed some of CMGE's most successful games. It also fails to explain why Zhongzheng would list CMGE's address in its SAIC registration.

178. As an initial matter, Zhongzheng is described in its SAIC filings as a mobile software developer, not an advertising agent. *See* ¶104. Moreover, this response does not explain why Zhongzheng is listed as the developer of some of CMGE's most succesfful and well-known games. As described in ¶110, Super Hero, a game developed by Zhongzheng, was

bringing in RMB 40 million per month in 2Q 2014, and CMGE attributed its increase in quarterly revenue from RMB 214.7 million to RMB 274.6 million to Super Hero's success after having only been released in May 2014 for Android devices and June 2014 for IOS devices. Based on these figures, revenue from Super Hero alone accounted for **at least 15%** of CMGE's total revenues in 2Q 2014 alone. CMGE's 3Q 2014 Quarterly Report stated that "The *Hero* Series has been continually successful so far with *Super Heros* and *Tian Tian Ying Xiong* becoming the drivers in the publishing business during the third quarter." This indicates that in 2Q 2014 and 3Q 2014 Super Hero alone accounted for far more than 1% of CMGE's total revenues, contrary to CMGE's claims.

179. Taking CMGE's statement as face value is puzzling in itself. Not only does it completely fail to mention CMGE's 2013 revenues from Zhongzheng when the agreement was signed in March, this appears to have been an arrangement that actually lost money for CMGE. Based on the results CMGE announced in its press releases, for the nine months ending on September 30, 2014, CMGE's total revenues were RMB 846.94 million, so 1% of revenues would have been RMB 8.47 million. During this same period, CMGE's operating expenses were RMB 380.20 million, so 3% operating expenses would have been RMB 11.41 million. Accordingly, the Company purportedly lost RMB 2.94 million (or nearly USD $479,000 as of September 30, 2014) on its advertising relationship with Zhonzheng.

180. As discussed in ¶89, CMGE's licensed game revenue drastically increased from 17.6% of game revenue in 2012 to 50.9% in 2013, and total game revenues increased from $172.2 million to $319.2 million in the same period. It is no coincidence that this improvement aligns with Ying being hired to run CMGE's publishing sector and then President of CMGE. CMGE attributed the increase in game revenue to an increase in social games, its transition to

smartphones, and an increase in revenue from licensed games. *See* 2013 Form 20-F at 93. As described in ¶¶113, 133, San Guo Zhi Weili Jiaqiang Ban, a game developed by Zhongzheng, was one of the licensed games for which CMGE reported revenue for during this period. A press release attached as Ex. 99-1 to its Report of Foreign Private Issuer filed on Form 6-K with the SEC on March 4, 2014 reporting fourth quarter and full year results listed San Guo Zhi Weili Jiaqiang Ban as one of its top three revenue grossing games during 4Q 2013. Given that licensed games accounted for 50.9% of its revenue in 2013 and San Guo Zhi Weili Jiaqiang Ban was one of its top three revenue grossing games, it is probable that Zhongzheng had a substantial impact on CMGE's business during that period, far greater than 1% of revenues, which should have been disclosed.

181. Shortly after GeoInvesting LLC issued the Second GeoInvesting Report on January 26, 2015, CHINA DAILY published an article on January 28, 2015 quoting Defendants additional rebuttal attempts. *See* January 28 China Daily Article. In the article, Ying is quoted as stating:

> "Of all CMGE's revenue in the first three quarters in 2014, less than one percent came from Zhongzheng and payments made to Zhongzheng for the first three quarters of 2014 accounted for approximately 3.0% of CMGE's operating expenses for the same period.," Ying said. "It is not possible that CMGE transferred revenue to, or generated significant revenue from, Zhongzheng. Furthermore, Zhongzeng is just one of CMGE's many mobile game advertising agents and CMGE has no control over Zhongzheng's business.
>
> "Consistent with China's mobile game market practice for Android and iOS, some mobile game advertising agents put their names on the mobile games for promotion of the games and the convenience of game uploads, even though game titles belong to the publishers and revenue collection is done by the publishers and the app store platforms. In the games mentioned by Geoinvesting, revenue collection is done by CMGE and app store platforms and not through Zhongzheng."
>
> CMGE said it has conducted its business with Zhongzheng at arm's length.

> Ying also mentioned that in October 2014, Zhongzheng's lease for its old office expired and it was in the process of looking for a new office space. CMGE agreed to temporarily lease part of its office in Shenzhen to Zhongzheng during the transition. Both Zhong Zheng and CMGE agreed that Zhongzheng should secure a new office space and move out of CMGE's Shenzhen office and change its registered address as soon as possible.

182. First, Ying's attempt to explain Zhongzheng as "one of CMGE's many mobile game advertising agents" is highly suspect. By attempting to explain that Zhongzheng appeared as the developer on mobile game distribution platforms because "some mobile game advertising agents put their names on the mobile games for promotion of the games and the convenience of game uploads, even though game titled belong to the publishers and revenue collection is done by the publishers and the app store platforms" is illogical. As discussed in ¶82, *supra*, CMGE described itself in its SEC filings as the largest game publisher in China, giving CMGE far greater name recognition among players than a small developer like Zhongzheng, with limited online presence. Indeed, as Defendants touted in their annual reports, CMGE's brand recognition allowed them to attract top developers for licensing agreements. *See* ¶¶83, 88. Furthermore, Ying's statement that CMGE still collected the game revenue as the publisher fails to not eliminate the more likely scenario where Zhongzheng was a game developer with whom CMGE had an undisclosed licensing arrangement.

183. Second, Ying's biography in the 2013 Form 20-F states that Ying "has extensive experience in the licensing, publishing, operation and marketing of mobile games and helps manage our publishing business" but listed only banking experience for his employment. Clearly Ying must have obtained such experience from another source, but Defendants failed to disclose that source as Zhongzheng until the 2014 Form 20-F filed after the commencement of this action. It would not have made sense to name Ying President of the CMGE's publishing department, and then COO of CMGE if Zhongzheng was merely a mobile advertising agency.

184. Third, as addressed in ¶179-180, the 1% of amount of revenue derived from its "advertising relationship" and 3% of operating expenses is inherently suspect. Why CMGE would be losing money on a mere "advertising agent" is odd, as mobile advertising is typically paid on performance.

185. Fourth, the claims that business with Zhongzheng was conducted at arm's length is impossible given the Zhongzheng's owner(s) during the Class Period were Ying's subordinates, and themselves management of CMGE. It also fails to address the suspicious ownership transfers of Zhongzheng as described in the GeoInvesting Report's publishing of SAIC records and discussed in ¶¶117-120 – which seem intended "to hide the ball" when it comes to Zhongzheng ownership – from Ying and his underling Sun (CMGE's VP in charge of publishing at the time)[15] to Ying's subordinate Du (CMGE publishing General Manager) in June 2013, then to Ying's subordinate Dan (also CMGE's Procurement Director and Zhongzheng co-founder), who is also Du's husband. Moreover, as described in ¶¶122-124, Ying, Du, and Dan are engaged in numerous other affiliated businesses with each other.

186. Fifth, Ying also provides a nonsensical explanation for the admission that Zhongzheng's registered address was a CMGE office. After claiming that CMGE temporarily leased part of its office to Zhongzheng while Zhongzheng was looking for new office space in October 2014, Ying said "[b]oth Zhongzheng[sic] and CMGE agreed that Zhongzheng should secure a new office space and move out of CMGE's Shenzhen office and change its registered address as soon as possible." However, if, as Ying claimed, CMGE's business was conducted at arm's-length, and the relationship was so insignificant to be described as a mere advertising

[15] Plaintiffs' investigation reveals that Sun's registered employer is currently listed as CMGE's subsidiary HuiYou Digital, which is the same as Du's registered employer in April 2016. The address for HuiYou Digital, as described in ¶130, was also once registered to Zhongzheng.

relationship that accounted for immaterial revenues and expenses (that was losing money for CMGE), then it defies logic that CMGE would then agree to lease Zhongzheng its office space.

187. Furthermore, as noted in ¶131, a mere two business days after the GeoInvesting Report was published, Zhongzheng's SAIC filings were amended to reflect an address change from CMGE's office to a virtual office. Ying does not explain why the companies found it necessary for Zhongzheng to secure a new office unless it was to conceal that the relationship was far from "arm's length", and it is highly probable that the address change was motivated by the GeoInvesting Report. Given Zhongzheng moved to a virtual office where not a single Zhongzheng employee was found or other evidence of Zhongzheng's presence, suggests this was not a real address change.

DEFENDANTS' MATERIALLY FALSE AND MISLEADING STATEMENTS

I. The 2012 Form 20-F

188. On April 26, 2013, CMGE filed the 2012 Form 20-F for the year ended December 31, 2012 which was signed by Xiao. The 2012 Form 20-F misrepresented the true nature of the Company's relationship with Zhongzheng, stating:

> We employ various traditional, online and mobile marketing programs and promotional activities, including in-game events and announcements, online and traditional advertising, and offline promotions. We primarily promote our games to end users through mobile network operators, mobile portals and applications stores. … In addition, in March 2013 we entered into an agreement with Shenzhen Zhongzheng Ruanyin Technology Co. Ltd., pursuant to which Zhongzheng Ruanyin will promote and advertise our games.

189. The statement that CMGE entered into an agreement with Zhongzheng to "promote and advertise our games" was materially false and misleading because it failed to disclose that the true nature of the Company's relationship with Zhongzheng went beyond a mere advertising and promotion relationship, and that Zhongzheng was an important game developer

for CMGE.

190. In the 2012 Form 20-F, CMGE reported full year 2012 revenues of RMB187.6 million (USD $30.1 million). The 2012 Form 20-F represented that the Company's "audited consolidated financial statements are prepared and presented in accordance with U.S. GAAP."

191. Additionally, Defendants Xiao and Chang each executed certifications to the 2012 Form 20-F stating that:

1. I have reviewed this annual report on Form 20-F of China Mobile Games and Entertainment Group Limited (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

e) "Disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent function): (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

192. The statements in the preceding paragraph were materially false and misleading, and CMGE's financial statements violated GAAP, because Defendants failed to disclose: (1) that the Company was under-recording its payments to Zhongzheng; (2) that as a result, the Company was overstating its revenues; and (3) that employees were directed to engage in bribery to secure and/or maintain relationships with CMGE's distributors. These omissions reflected a material weakness in the Company's internal control over financial reporting that should have been disclosed by the Company.

II. The Second Quarter 2013 Quarterly Report

193. On August 28, 2013, CMGE issued a press release entitled "CMGE Reports Second Quarter 2013 Unaudited Financial Results" for the quarter ended June 30, 2013 ("2Q 2013 Quarterly Report"). In the 2Q 2013 Quarterly Report, CMGE reported revenues of RMB72.0 million (USD $11.7 million) for 2Q 2013. The press release represented that "CMGE's financial results [are] presented in accordance with U.S. GAAP[.]"

194. The 2Q 2013 Quarterly Report was materially false and misleading and violated GAAP for failing to disclose: (1) that Zhongzheng was a related party from at least June 2013 onwards, as well as the nature of the related-party transactions when Ying and Sun transferred their shares to Du, all three of whom were senior management of CMGE; (2) that the Company was under-recording its payments to Zhongzheng; (3) that as a result, the Company was overstating its revenues; and (4) that employees were directed to engage in bribery to secure and/or maintain relationships with CMGE's distributors.

III. The Third Quarter 2013 Quarterly Report

195. On November 15, 2013 CMGE issued a press release entitled "CMGE Reports Third Quarter 2013 Unaudited Financial Results" for the quarter ended September 30, 2013 ("3Q 2013 Quarterly Report"). In the 3Q 2013 Quarterly Report, CMGE reported revenues of RMB98.1 million (USD $16.0 million) for 3Q 2013. The press release represented that "CMGE's financial results [are] presented in accordance with U.S. GAAP[.]"

196. The 3Q 2013 Quarterly Report was materially false and misleading and violated GAAP for failing to disclose: (1) that Zhongzheng was a related party from at least June 2013 onwards, as well as the nature of the related-party transactions when Ying and Sun transferred their shares to Du, all three of whom were senior management of CMGE; (2) that the Company was under-recording its payments to Zhongzheng; (3) that as a result, the Company was overstating its revenues; and (4) that employees were directed to engage in bribery to secure and/or maintain relationships with CMGE's distributors.

IV. The Fourth Quarter 2013 Quarterly Report

197. On March 4, 2014 CMGE issued a press release entitled "CMGE Reports Fourth Quarter and Full Year 2013 Unaudited Financial Results" for the quarter and year ended

December 31, 2013 ("4Q 2013 Quarterly Report"). In the 4Q 2013 Quarterly Report, CMGE reported 4Q 2013 revenues of RMB146.40 million (USD $24.1 million) and full year 2013 revenues of RMB353.0 million (USD $58.3 million) for 4Q 2013. The press release represented that "CMGE's financial results [are] presented in accordance with U.S. GAAP[.]"

198. The 4Q 2013 Quarterly Report was materially false and misleading and violated GAAP for failing to disclose: (1) that Zhongzheng was a related party from at least June 2013 onwards, as well as the nature of the related-party transactions when Ying and Sun transferred their shares to Du, all three of whom were senior management of CMGE; (2) that the Company was under-recording its payments to Zhongzheng; (3) that as a result, the Company was overstating its revenues; and (4) that employees were directed to engage in bribery to secure and/or maintain relationships with CMGE's distributors.

V. The 2013 Form 20-F

199. On March 7, 2014, CMGE filed its 2013 Form 20-F for the year ended December 31, 2013 with the SEC which was signed by Xiao.

200. In the 2013 Form 20-F, CMGE reported full year 2013 revenues of RMB353.0 million (USD $58.3 million). The 2013 Form 20-F represented that the Company's "audited consolidated financial statements are prepared and presented in accordance with U.S. GAAP." Defendants Xiao and Chang each executed certifications substantially similar to the certifications they signed in ¶191, *supra*.

201. Under Item 6A of the 2013 Form 20-F, Ying's entire biography was stated as follows:

> Shuling Ying became our president in October 2013. He has extensive experience in the licensing, publishing, operation and marketing of mobile games and helps manage our publishing business. Prior to joining our company, Mr. Ying served as a director of the investment division of Standard Chartered Bank Shanghai

branch from 2006 to 2008.

202. The 2013 Form 20-F was materially false and misleading for failing to disclose, in violation of Regulation S-K, that Ying was the founder, CEO, and controlling shareholder of related party Zhongzheng from 2009 to June 2013.

203. The 2013 Form 20-F was also materially false and misleading and violated GAAP for omitting to disclose that Zhongzheng was a related party from at least June 2013 onwards, as well as the nature of the related-party transactions when Ying and Sun transferred their shares to Du, all three of whom were management of CMGE, including the fact that on February 14, 2014, Juan Du transferred 95% of Zhongzheng shares and the legal representative title over to her husband Chenghai Dan, who was also CMGE management under Ying. *See* ¶¶119-20, *supra.*

204. The 2013 Form 20-F was also materially false and misleading and violated GAAP because Defendants failed to disclose: (1) that the Company was under-recording its payments to Zhongzheng; (2) that as a result, the Company was overstating its revenues; and (3) that employees were directed to engage in bribery to secure and/or maintain relationships with CMGE's distributors. These omissions reflected a material weakness in the Company's internal control over financial reporting that should have been disclosed by the Company.

VI. The 2014 Offering Documents

205. The 2014 Registration Statement was signed by Xiao and Chang. The 2014 Registration Statement and the 2014 Prospectus both incorporated by reference CMGE's 2013 Form 20-F, including the statements about Ying set forth in ¶101-102, *supra*. The Registration Statement and the 2014 Prospectus reported that CMGE's full year 2013 revenues were RMB353.0 million (USD $58.3 million). The 2014 Offering Documents also stated, "[w]e prepare our financial statements in conformity with U.S. GAAP[.]"

206. The 2014 Registration Statement at F-58 stated that CMGE had engaged in related-party transactions with the following persons and entities:

- VODone;
- Shenzhen Kuailefeng Software Development Co., Ltd.;
- Bright Way;
- Shenzhen Provider Technology Co., Ltd.;
- Shenzhen Huazhongtianxun Technology Co., Ltd.;
- Beijing Changshi Jiaren Technology Development Co., Ltd.;
- Beijing Shidai Xunda Technology Co., Ltd.;
- Giantech;
- Mr. Wang Yongchao;
- Mr. Kuang Yixun;
- Mr. Hu Zhenning;
- MediaTek Inc.;
- Vogins BVI; and
- Vogins Shanghai

207. The preceding statement, and the 2014 Offering Documents were materially false and misleading and violated GAAP for omitting to disclose that Zhongzheng was a related party from June 2013 onwards, as well as the nature and value of the related-party transactions when Ying and Sun transferred their shares to Du, all three of whom were management of CMGE. The 2014 Offering Documents also failed to disclose that Juan Du later transferred 95% of her Zhongzheng shares and the legal representative title over to her husband Chenghai Dan in February 2014, who was also CMGE management under Ying. *See* ¶¶119-20, *supra*.

208. The 2014 Offering Documents were also materially misleading and violated GAAP because Defendants failed to disclose: (1) that the Company was under-recording its payments to Zhongzheng; (2) that as a result, the Company was overstating its revenues; and (3) that employees were directed to engage in bribery to secure and/or maintain relationships with CMGE's distributors. These omissions reflected a material weakness in the Company's internal control over financial reporting that should have been disclosed by the Company.

VII. The First Quarter 2014 Quarterly Report

209. On May 16, 2014 CMGE issued a press release entitled "CMGE Reports First Quarter 2014 Unaudited Financial Results" for the quarter ended March 31, 2014 ("1Q 2014 Quarterly Report"). In the 1Q 2014 Quarterly Report, CMGE reported revenues of RMB214.7 million (USD $34.5 million) for 1Q 2014. The press release represented that "CMGE's financial results [are] presented in accordance with U.S. GAAP[.]"

210. The 1Q 2014 Quarterly Report was materially false and misleading and violated GAAP for omitting to disclose that Zhongzheng was a related party from at least June 2013 onwards, as well as the nature and value of the related-party transactions when Ying and Sun transferred their shares to Du, all three of whom were management of CMGE. The 1Q 2014 Quarterly Report also failed to disclose that Juan Du transferred 95% of her Zhongzheng shares and the legal representative title over to her husband Chenghai Dan, who was also CMGE management under Ying.

211. The 1Q 2014 Quarterly Report was also materially false and misleading and violated GAAP because Defendants failed to disclose: (1) that the Company was under-recording its payments to Zhongzheng; (2) that as a result, the Company was overstating its revenues; and (3) that employees were directed to engage in bribery to secure and/or maintain relationships with CMGE's distributors. These omissions reflected a material weakness in the Company's internal control over financial reporting that should have been disclosed by the Company.

VIII. The Second Quarter 2014 Quarterly Report

212. On August 18, 2014 CMGE issued a press release entitled "CMGE Reports First Quarter 2014 Unaudited Financial Results" for the quarter ended June 30, 2014 ("2Q 2014 Quarterly Report"). In the 2Q 2014 Quarterly Report, CMGE reported revenues of RMB274.6

million (USD $44.3 million) for 2Q 2014. The press release represented that "CMGE's financial results [are] presented in accordance with U.S. GAAP[.]"

213. The 2Q 2014 Quarterly Report was materially false and misleading and violated GAAP for omitting to disclose that Zhongzheng was a related party from at least June 2013 onwards, as well as the nature and value of the related-party transactions when Ying and Sun transferred their shares to Du, all three of whom were management of CMGE. The 2Q 2014 Quarterly Report also failed to disclose that Juan Du transferred 95% of her Zhongzheng shares and the legal representative title over to her husband Chenghai Dan, who was also CMGE management under Ying.

214. The 2Q 2014 Quarterly Report was also materially false and misleading and violated GAAP because Defendants failed to disclose: (1) that the Company was under-recording its payments to Zhongzheng; (2) that as a result, the Company was overstating its revenues; and (3) that employees were directed to engage in bribery to secure and/or maintain relationships with CMGE's distributors. These omissions reflected a material weakness in the Company's internal control over financial reporting that should have been disclosed by the Company.

IX. The Third Quarter 2014 Quarterly Report

215. On November 17, 2014 CMGE issued a press release entitled "CMGE Reports Third Quarter 2014 Unaudited Financial Results" for the quarter ended September 30, 2014 ("3Q 2014 Quarterly Report"). In the 3Q 2014 Quarterly Report, CMGE reported revenues of RMB357.6 million (USD $58.3 million) for 3Q 2014. The press release represented that "CMGE's financial results [are] presented in accordance with U.S. GAAP[.]"

216. The 3Q 2014 Quarterly Report was materially false and misleading and violated GAAP for omitting to disclose that Zhongzheng was a related party from at least June 2013

onwards, as well as the nature and value of the related-party transactions when Ying and Sun transferred their shares to Du, all three of whom were management of CMGE. The 3Q 2014 Quarterly Report also failed to disclose that Juan Du transferred 95% of her Zhongzheng shares and the legal representative title over to her husband Chenghai Dan, who was also CMGE management under Ying.

217. The 3Q 2014 Quarterly Report was also materially false and misleading and violated GAAP because Defendants failed to disclose: (1) that the Company was under-recording its payments to Zhongzheng; (2) that as a result, the Company was overstating its revenues; and (3) that employees were directed to engage in bribery to secure and/or maintain relationships with CMGE's distributors. These omissions reflected a material weakness in the Company's internal control over financial reporting that should have been disclosed by the Company.

LOSS CAUSATION

218. Defendants' wrongful conduct, as alleged herein, directly and proximately caused the economic loss suffered by Plaintiffs and the Class.

219. During the Class Period, Plaintiffs and the Class purchased CMGE ADS at artificially inflated prices and were damaged thereby. The false and misleading statements and omissions described above caused CMGE's publicly traded securities to trade at artificially inflated prices during the Class Period in that the securities traded at prices higher than they would have traded had complete, accurate and truthful information about CMGE been known to the market.

220. The market for CMGE securities was open, well-developed and efficient at all relevant times.

221. The undisclosed risks alleged herein above that were created by Defendants'

failure to disclose the true nature of its relationship with related party Zhongzheng and Ying's control eventually materialized when the Chinese news outlets disclosed that Defendant Xiao had terminated nine senior members of CMGE senior management (including Ying and several senior managers under his control, who were also linked to Zhongzheng).

222. When Defendants' prior misrepresentations, omissions, and fraudulent conduct, or the economic consequences thereof, were disclosed and became apparent to the market, the price of CMGE securities declined disproportionately to the market and relevant peer indices, thereby reducing or eliminating the prior artificial inflation. This disproportionate decline in CMGE's share price, including but not limited to, the disproportionate stock drops described below that occurred on June 20, 2014, and January 15, 2015, caused economic damages to be incurred by class members, including Plaintiffs, who had purchased CMGE securities at artificially inflated prices prevailing in the market during the Class Period.

223. On June 19, 2014, Sina, CANSLIM, and Nomura HK each disclosed the firing of nine CMGE employees, including Ying, Juan Du, Chenghai Dan, Jingzhi Sun, and Shuzhong Min, for bribery, as set forth more fully above.

224. On this news, CMGE ADS dropped $4.57, or more than 24%, to close at $14.33 on June 20, 2014 on unusually heavy volume. This unusual trading activity caused NASDAQ to temporarily halt trading on June 19, 2014 until the Company provided more information, and trading eventually resumed the following day.

225. On January 15, 2015, the GeoInvesting Report was issued, revealing that CMGE failed to disclose that Zhongzheng was a related party through undisclosed ownership transfers to various CMGE employees under Ying's control, and that CMGE had been understating the significance of its transactions with Zhongzheng, as set forth more fully above.

226. By revealing that Ying was the CEO of Zhongzheng until 2013, the GeoInvesting Report also revealed facts that demonstrated that the 2013 Form 20-F was misleading for omitting to disclose that information.

227. On this news, CMGE ADS fell $1.49, or nearly 8%, to close at $17.46 per ADS on January 16, 2015, on unusually heavy volume.

ADDITIONAL SCIENTER ALLEGATIONS

228. Management retains responsibility for preparing financial statements that conform with GAAP. The American Institute of Certified Public Accountants ("AICPA") Professional Standards provide:

> The financial statements are management's responsibility . . . Management is responsible for adopting sound accounting policies and for establishing and maintaining internal controls that will, among other things, record, process, summarize, and report transactions (as well as events and conditions) consistent with management's assertions embodied in the financial statements. The entity's transactions and the related assets, liabilities, and equity are within the direct knowledge and control of management. . . . Thus, the fair presentation of financial statements in conformity with generally accepted accounting principles is an implicit and integral part of management's responsibility.

AIPCA, Professional Standards, vol. 1, AU § 110.02 (1998).

229. As alleged herein, the CMGE, Xiao and Chang acted with scienter because at the time that they issued public documents and made other public statements in CMGE's name, they knew or recklessly disregarded the fact that such statements were materially false and misleading and/or omitted to disclose that CMGE engaged in a related-party transaction with Zhongzheng. CMGE, Xiao, and Chang (1) knew that such documents and statements would be issued or disseminated to the investing public, (2) knew that persons were likely to rely upon those misrepresentations and omissions, and (3) knowingly and/or recklessly participated in the issuance and/or dissemination of such statements and/or documents as primary violators of the

federal securities laws. CMGE, Xiao, and Chang's materially false and misleading statements and omissions of material fact artificially inflated CMGE's stock price during the Class Period.

230. In fact, CMGE, Xiao, and Chang had access to the Company's "internal system" upon which employees could find up-to-date information regarding the games downloaded, the number of in-game premium features, monthly plan subscriptions, and game points sold, as well as each paying mobile phone game players' purchase and log in history. This internal system was used to estimate revenues generated from CMGE's games and to track user practices.

231. Because the fraud alleged herein relates to the core business of CMGE, knowledge of the facts underlying the fraudulent scheme may be imputed to the Individual Defendants. Indeed, in 2013, more than 50% of the Company's revenues were derived from its publishing business and the Company disclosed that it was "dependent on our ability to license new games." The games published by Zhongzheng were also purportedly CMGE's lead revenue drivers. Therefore the Xiao and Chang, as senior level executives and/or directors, were in such positions at the Company to access all material, non-public information concerning the Company's relationship with Zhongzheng and its publishing licenses. Thus, the Xiao and Chang were well aware that the positive statements detailed above about CMGE's mobile games and publishing business, made contemporaneously with knowledge of contradictory information, were materially false and/or misleading when made. Defendants Xiao and Chang, as CEO and CFO respectively, chose to omit from the 2013 Form 20-F that Ying was CEO of Zhongzheng. Defendant Xiao, having cooperated personally with Ying while Ying was CEO of Zhongzheng, was well aware of Ying's employment history. Chang, as a director of Zhongzheng was well aware of the qualifications of senior officers, being involved in the ultimate decisions regarding their hiring and compensation, and was also aware of Ying's employment history. Ying himself

was aware of his own employment history, and the decision by the three individual Defendants to omit this history from the 20-F was a blatant attempt at concealment.

232. Also supporting scienter is the simplicity and obviousness of the fraud. The fact that bribery is a fraudulent activity that violates internal controls over financial reporting, or that related parties are required to be disclosed, are not esoteric accounting rules, but clear and straightforward directives that could be understood without specialized accounting training.

233. Further supporting scienter is the fact that Defendants Xiao and Chang reported other related-party transactions, demonstrating their knowledge of the disclosure requirements.

234. In addition, Ying had knowledge of the undisclosed related party relationship, and as president of CMGE Ying's scienter is attributable to CMGE. Ying had knowledge of the related party transactions because he was the individual that secretly exercised control over Zhongzheng. In the alternative, even if Ying was not secretly exercising control over Zhongzheng, as the person who transferred ownership of Zhongzheng to Juan Du, he was aware that Du, a senior manager of CMGE, was the owner of Zhongzheng since Ying engaged in the ownership transfer.

235. The scienter of Du and Dan are also attributable to CMGE. Both Du and Dan occupied management positions within CMGE, and as owners of Zhongzheng during the class period were aware that they were engaged in related party transactions.

APPLICABILITY OF THE FRAUD ON THE MARKETDOCTRINE

236. The market for CMGE's ADS was an efficient market for the following reasons, among others:

a) CMGE's common stock was listed and actively traded on the NASDAQ, a highly efficient national market;

b) During the class period, on average, more than 9% of the ADS outstanding of CMGE stock were traded on a weekly basis, demonstrating a very active and broad market for CMGE and permitting a very strong presumption of an efficient market;

c) As a registered and regulated issuer of securities, CMGE filed periodic reports with the SEC, in addition to the frequent voluntary dissemination of information;

d) CMGE regularly communicated with public investors through established market communication mechanisms, including through regular dissemination of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures such as communications with the financial press and other similar reporting services;

e) CMGE was followed by at least five securities analysts, who followed CMGE's business and wrote reports which were publicly available and affected the public marketplace;

f) Unexpected material news about CMGE was rapidly reflected and incorporated into the Company's stock price during the Class Period.

g) The material misrepresentations and omissions alleged herein would tend to induce a reasonable investor to misjudge the value of CMGE's ADS; and

h) Without knowledge of the misrepresented or omitted facts, Plaintiffs and other members of the Class purchased or otherwise acquired CMGE ADS between the time the Exchange Act Defendants made the material misrepresentations and omissions and the time that the truth was revealed, during which time the price of CMGE ADS was artificially inflated by the Exchange Act Defendants' misrepresentations and omissions.

237. As a result of the above, the market for CMGE ADS promptly digested current information with respect to the Company from all publicly available sources and reflected such information in the security's price. The historical daily trading prices and volumes of CMGE publicly traded stock are incorporated by reference herein. Under these circumstances, all purchasers of CMGE ADS during the Class Period suffered similar injuries through their purchases of shares at prices which were artificially inflated by Defendants' misrepresentations and omissions. Thus, a presumption of reliance applies.

THE AFFILIATED UTE PRESUMPTION

238. Neither Plaintiffs nor the Class need prove reliance—either individually or as a class because under the circumstances of this case, which involves a failure to disclose that Zhongzheng was a related party and that CMGE was engaged in bribery, as described above, positive proof of reliance is not a prerequisite to recovery, pursuant to ruling of the United States Supreme Court in *Affiliated Ute Citizens of Utah v. United States*, 406 U.S. 128 (1972). All that is necessary is that the facts withheld be material in the sense that a reasonable investor might have considered the omitted information important in deciding whether to buy or sell the subject security. As the Supreme Court explained, requiring plaintiffs to describe how they would have behaved had the omitted information been disclosed places an unrealistic burden on plaintiffs.

CLASS ACTION ALLEGATIONS

239. Plaintiffs bring this action pursuant to Rule 23(a) and 23(b)(3) of the Federal Rules of Civil Procedure on behalf of itself and a purported class (the "Class") consisting of all

persons who purchased or otherwise acquired CMGE ADS between April 26, 2013 and January 14, 2015, inclusive, at artificially inflated prices, including those investors who purchased ADS pursuant to CMGE's secondary offering on or about March 26, 2014, and who were damaged thereby. Excluded from the Class are Defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest, including Zhongzheng, Dan and Du.

240. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, CMGE's securities were actively traded on the Nasdaq Global Market (the "NASDAQ"). While the exact number of Class members is unknown to Plaintiffs at this time and can only be ascertained through appropriate discovery, Plaintiffs believe that there are hundreds or thousands of members in the proposed Class. Millions of CMGE securities were traded publicly during the Class Period on the NASDAQ. As of December 31, 2014, CMGE had 257,523,929 Class A ordinary shares and 180,821,228 Class B ordinary shares outstanding. Each CMGE ADS represented 14 Class A ordinary shares. Record owners and other members of the Class may be identified from records maintained by CMGE or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

241. Plaintiffs' claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

242. Plaintiffs will fairly and adequately protect the interests of the members of the Class and have retained counsel competent and experienced in class and securities litigation.

243. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

244. (a) whether the federal securities laws were violated by Defendants' acts as alleged herein;

245. (b) whether statements made by Defendants to the investing public during the Class Period omitted and/or misrepresented material facts about the business, operations, and prospects of CMGE; and

246. (c) to what extent the members of the Class have sustained damages and the proper measure of damages.

247. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation makes it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

CLAIMS FOR RELIEF UNDER THE EXCHANGE ACT

COUNT I

For Violations of Section 10(b) of the Exchange Act and Rule 10b-5
Against the Exchange Act Defendants

248. Plaintiffs repeat and reallege each and every allegation set forth above as if fully set forth herein.

249. This claim is brought under § 10(b) of the Exchange Act, 15 U.S.C. § 78j(b) and Rule 10b-5 promulgated thereunder by the SEC, 17 C.F.R. § 240.10b-5, against the Exchange

Act Defendants.

250. The Exchange Act Defendants (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material fact and/or omitted material facts necessary to make the statements made not misleading; and (c) engaged in acts, practices and a course of business which operated as a fraud and deceit upon Plaintiffs and the Class, in violation of § 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

251. The Exchange Act Defendants individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or the mails, engaged and participated in a continuous course of conduct to conceal non-public, adverse material information about the Company's financial condition as reflected in the misrepresentations and omissions set forth above.

252. The Exchange Act Defendants each had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth by failing to ascertain and to disclose such facts even though such facts were available to them, or deliberately refrained from taking steps necessary to discover whether the material facts were false or misleading.

253. As a result of the Exchange Act Defendants' dissemination of materially false and misleading information and their failure to disclose material facts, Plaintiffs and the Class were misled into believing that the Company's statements and other disclosures were true, accurate, and complete.

254. CMGE is liable for the acts of the Individual Defendants and other Company personnel referenced herein under the doctrine of respondeat superior, as those persons were acting as the officers, directors, and/or agents of CMGE in taking the actions alleged herein.

255. Plaintiffs and the Class purchased CMGE ADS, without knowing that the Exchange Act Defendants had misstated or omitted material facts about the Company's financial performance or prospects. In so doing, Plaintiffs and the Class relied directly or indirectly on false and misleading statements made by the Exchange Act Defendants, and/or an absence of material adverse information that was known to the Exchange Act Defendants or recklessly disregarded by them but not disclosed in the Exchange Act Defendants' public statements. Plaintiffs and the Class were damaged as a result of their reliance on the Exchange Act Defendants' false statements and misrepresentations and omissions of material facts.

256. At the time of the Exchange Act Defendants' false statements, misrepresentations and omissions, Plaintiffs and the Class were unaware of their falsity and believed them to be true. Plaintiffs and the Class would not otherwise have purchased CMGE ADS had they known the truth about the matters discussed above.

257. By virtue of the foregoing, the Exchange Act Defendants have violated § 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

258. As a direct and proximate result of the Exchange Act Defendants' wrongful conduct, Plaintiffs and the Class have suffered damages in connection with their purchase of CMGE ADS.

259. This action was filed within two years of discovery of the fraud and within five years of Plaintiffs' purchases of securities giving rise to the cause of action.

COUNT II

For Violations of Section 20(a) of the Exchange Act Against the Individual Defendants

260. Plaintiffs repeat and reallege each and every allegation set forth above as if fully set forth herein.

261. This claim is brought under § 20(a) of the Exchange Act, 15 U.S.C. § 78t, against the Individual Defendants.

262. Each of the Individual Defendants, by reason of their status as senior executive officers of CMGE, directly or indirectly, controlled the conduct of the Company's business and its representations to Plaintiffs and the Class, within the meaning of § 20(a) of the Exchange Act. The Individual Defendants directly or indirectly controlled the content of the Company's SEC statements and press releases related to Plaintiffs' and the Class' investments in CMGE ADS within the meaning of § 20(a) of the Exchange Act. Therefore, the Individual Defendants are jointly and severally liable for the Company's fraud, as alleged herein.

263. The Individual Defendants controlled and had the authority to control the content of the Company's SEC statements and press releases. Because of their close involvement in the everyday activities of the Company, and because of their wide-ranging supervisory authority, the Individual Defendants reviewed or had the opportunity to review these documents prior to their issuance, or could have prevented their issuance or caused them to be corrected.

264. The Individual Defendants knew or recklessly disregarded the fact that CMGE's representations were materially false and misleading and/or omitted material facts when made. In so doing, the Individual Defendants did not act in good faith.

265. By virtue of their high-level positions and their participation in and awareness of CMGE's operations and public statements, the Individual Defendants were able to and did influence and control CMGE's decision-making, including controlling the content and dissemination of the documents that Plaintiffs and the Class contend contained materially false and misleading information and on which Plaintiffs and the Class relied.

266. The Individual Defendants had the power to control or influence the statements

made giving rise to the securities violations alleged herein, and as set forth more fully above.

267. As set forth herein CMGE and the Individual Defendants each violated § 10(b) of the Exchange Act and Rule 10b-5, thereunder, by their acts and omissions as alleged herein. By virtue of their positions as controlling persons, the Individual Defendants are also liable pursuant to § 20(a) of the Exchange Act.

268. As a direct and proximate result of the Individual Defendants' wrongful conduct, Plaintiffs and the Class suffered damages in connection with their purchase of CMGE ADS.

269. This action was filed within two years of discovery of the fraud and within five years of Plaintiffs' purchases of securities giving rise to the cause of action.

SECURITIES ACT ALLEGATIONS

270. In the allegations and claims set forth in this part of the Complaint, Lead Plaintiff Dormier and Plaintiff Chun allege a series of strict liability and negligence claims based on the Securities Act on behalf of the Class. Plaintiffs' Securities Act claims are not based on any allegations of knowing or reckless misconduct on behalf of any of the Defendants. Plaintiffs' Securities Act claims do not allege, and do not sound in, fraud, and Plaintiffs specifically disclaim any reference to or reliance upon allegations of fraud in these non-fraud claims under the Securities Act.

271. Plaintiffs' Securities Act allegations are asserted on behalf of all persons or entities who purchased CMGE ADS stock pursuant to the Company's false and misleading Registration Statement and Prospectus issued in connection with the Offering, seeking to pursue remedies under the Securities Act.

272. On March 7, 2014 CMGE announced a follow-on public offering of an additional 3,422,000 ADS at $24.00 per ADS, for total proceeds of $82,608,000. *See* 2014 Prospectus.

Defendants Credit Suisse, Barclays, Nomura, and Jefferies, served as joint book runners and underwriters for the offering and Brean served as an underwriter and co-manager. In exchange for these services, the Underwriter Defendants were to be paid total commissions of $3,923,880 ($4,512,462 with exercise of the over-allotment). *See id.* at 126.

273. The offering was completed on March 26, 2014 and CMGE received net proceeds of approximately $77.8 million. *See* 2014 Form 20-F at 125.

I. The 2014 Offering Documents Were Required to Disclose Ying's Employment History

274. As described in ¶65, Item 401(e)(1) of Regulation S-K requires registrants to "briefly describe the business experience during the past five years of each … executive officer … including: each person's principal occupations and employment during the past five years."

275. The 2014 Offering Documents incorporated by reference CMGE's 2013 Form 20-F, including the statements set forth in ¶¶101-02. This statement was materially misleading for failing to disclose, in violation of Regulation S-K, that Ying was the founder, CEO, and controlling shareholder of related party Zhongzheng from 2009 to June 2013.

II. The 2014 Offering Documents Defendants Were Required to Disclose Ying's Employment History

276. In connection with the Offering, on March 7, 2014, CMGE filed the 2014 Registration Statement on Form F-3 with the SEC. On March 14 and March 18, 2014 CMGE filed amendments to the 2014 Registration Statement. On March 20, 2014, the 2014 Registration Statement was declared effective and on March 21, 2014, CMGE filed the 2014 Prospectus on Form 424(b)(4) for an offering of 3,422,000 ADS at $24.00 per ADS.

277. The 2014 Registration Statement was signed by Xiao and Chang. The 2014 Registration Statement and the 2014 Prospectus both incorporated by reference CMGE's 2013 Form 20-F, including Ying's business profile that omitted any mention of Zhongzheng as set

forth in ¶¶101-02, *supra*. The Registration Statement and the 2014 Prospectus reported that CMGE's full year 2013 revenues were RMB353.0 million (USD $58.3 million). The 2014 Offering Documents also stated, "[w]e prepare our financial statements in conformity with U.S. GAAP[.]"

278. The 2014 Registration Statement at F-58 disclosed that CMGE had engaged in related-party transactions with the following persons and entities:

- VODone;
- Shenzhen Kuailefeng Software Development Co., Ltd.;
- Bright Way;
- Shenzhen Provider Technology Co., Ltd.;
- Shenzhen Huazhongtianxun Technology Co., Ltd.;
- Beijing Changshi Jiaren Technology Development Co., Ltd.;
- Beijing Shidai Xunda Technology Co., Ltd.;
- Giantech;
- Mr. Wang Yongchao;
- Mr. Kuang Yixun;
- Mr. Hu Zhenning;
- MediaTek Inc.;
- Vogins BVI; and
- Vogins Shanghai.

279. The preceding statement, and the 2014 Offering Documents were materially false and misleading and violated GAAP for omitting to disclose that Zhongzheng was a related party from June 2013 onwards, as well as the nature of the related-party transactions when Ying and Sun transferred their shares to Du, all three of whom were management of CMGE. The 2014 Offering Documents also failed to disclose that Juan Du transferred 95% of her Zhongzheng shares and the legal representative title over to her husband Chenghai Dan, who was also CMGE management under Ying. *See* ¶¶119-20, *supra*.

280. The 2014 Offering Documents were also materially false and misleading and violated GAAP because Defendants failed to disclose: (1) that the Company was under-recording its payments to Zhongzheng; (2) that as a result, the Company was overstating its revenues; and

(3) that employees were directed to engage in bribery to secure and/or maintain relationships with CMGE's distributors. These omissions reflected a material weakness in the Company's internal control over financial reporting that should have been disclosed by the Company.

CLAIMS FOR RELIEF UNDER THE SECURITIES ACT

COUNT III

For Violations of Section 11 of the Securities Act
Against the Section 11 Defendants

281. Plaintiffs repeat and reallege each allegation forth in ¶¶1-22, 24-55, 74-114, 270-280, except any allegation of fraud, recklessness or intentional misconduct. This claim is based solely on strict liability and negligence claims, and expressly disclaim any allegation of fraud or intentional misconduct, except that any challenged statements of opinion or belief made in the Offering Materials are alleged to have been materially misstated statements of opinion or belief when made and at the time of the Offering.

282. This claim is brought under § 11 of the Securities Act, 15 U.S.C. § 77k, against the Section 11 Defendants.

283. The 2014 Offering Documents were inaccurate and misleading, contained untrue statements of material fact, omitted to state facts necessary to make the statements made therein not inaccurate, and omitted to state material facts required to be stated therein.

284. CMGE was the registrant for the 2014 Offering. As the issuer of ADS, CMGE is strictly liable to Plaintiffs and the Class for the materially inaccurate statements in the 2014 Offering Documents and the failure of the 2014 Offering Documents to be complete and disclose the material information required pursuant to the regulations governing its preparation.

285. Defendants Xiao and Chang signed the 2014 Offering Documents either personally or through Attorney-in-Fact and caused its issuance. Xiao and Chang each had a duty

to make a reasonable and diligent investigation of the truthfulness and accuracy of the statements contained in the 2014 Offering Documents. Xiao and Chang had a duty to ensure that such statements were true and accurate and that there were no omissions of material facts that would make the statements in the 2014 Offering Documents inaccurate. By virtue of Xiao and Chang's failure to make a reasonable and diligent investigation of the truthfulness and accuracy of the statements contained in the 2014 Offering Documents, the 2014 Offering Documents contained inaccurate misrepresentations and/or omissions of material fact. As such, Xiao and Chang are strictly liable to Plaintiffs and the Class.

286. The Underwriter Defendants failed to perform adequate due diligence in connection with their role as underwriters and were negligent in failing to ensure that the 2014 Offering Documents were prepared properly and accurately. The Underwriter Defendants' failure to conduct an adequate due diligence investigation was a substantial factor leading to the harm complained of herein. As such, the Underwriter Defendants are strictly liable to Plaintiffs and the Class.

287. The Section 11 Defendants were responsible for the contents and dissemination of the 2014 Offering Documents. None of them made a reasonable investigation of possessed reasonable grounds for the belief that the statements contained in the 2014 Offering Documents were true and without omissions of any material facts and were not inaccurate.

288. The Section 11 Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or the mails, engaged and participated in a continuous course of conduct to conceal non-public, adverse material information about the Company's financial condition as reflected in the misrepresentations and omissions set forth above.

289. At the time of the Section 11 Defendants' false statements, misrepresentations, and omissions in the 2014 Offering Documents, Plaintiffs and the Class were unaware of their falsity and believed them to be true. Plaintiffs and the Class would not otherwise have purchased CMGE ADS in the 2014 Offering had they known the truth about the matters discussed above.

290. By virtue of the foregoing, the Section 11 Defendants have violated § 11 of the Securities Act. As a direct and proximate result of the Section 11 Defendants' wrongful conduct, Lead Plaintiff Dormier, Plaintiff Chun, and the Class have suffered damages in connection with their purchase of CMGE ADS pursuant to the 2014 Registration Statement for the Offering.

291. This claim was brought within one year after Plaintiffs discovered or reasonably could have discovered the untrue statements and omissions in the 2014 Registration Statement that should have been made and/or corrected through the exercise of reasonable diligence, and within three years of the effective date of the 2014 Registration Statement.

COUNT IV
For Violations of Section 12(a)(2) of the Securities Act
Against CMGE and the Underwriter Defendants

292. Plaintiffs repeat and reallege each allegation forth in ¶¶1-22, 24-55, 74-114, 270-280, except any allegation of fraud, recklessness or intentional misconduct. This claim is based solely on strict liability and negligence claims, and expressly disclaim any allegation of fraud or intentional misconduct, except that any challenged statements of opinion or belief made in the Offering Materials are alleged to have been materially misstated statements of opinion or belief when made and at the time of the Offerings.

293. This claim is brought under § 12(a)(2) of the Securities Act, 15 U.S.C. § 77l on behalf of Lead Plaintiff Dormier, Plaintiff Chun, and all persons or entities who purchased CMGE ADSs pursuant to the 2014 Registration Statement and/or Prospectus, against CMGE and

the Underwriter Defendants.

294. CMGE and the Underwriter Defendants were sellers, offerors, or solicitors of sales of a security, specifically the CMGE ADS issued in the Offering pursuant to the 2014 Registration Statement and/or Prospectus.

295. By means of the Registration Statement and/or Prospectus, Defendants offered ADS of the Company to the Class in return for $24.00 each. CMGE and the Underwriter Defendants' actions of solicitation consisted primarily of the preparation and/or dissemination of the Registration Statement and/or Prospectus.

296. The CMGE ADS were sold through the use of interstate communication, the use of interstate commerce, and the use of the mails, including the use of the 2014 Prospectus and/or the 2014 Registration Statement, which contained untrue statements of material fact or omitted to state material facts necessary in order to make the statements made not misleading.

297. CMGE and the Underwriter Defendants cannot prove that they did not know, or in the exercise of reasonable care, could not have known, of the untruth or omissions described in the preceding paragraph.

298. Lead Plaintiff Dormier, Plaintiff Chun, and members of the Class purchased CMGE ADS by means of the materially misstated Offering Materials. At the time they purchased shares in the Offering, no member of the Class knew, or by the reasonable exercise of care could have known, of the material misstatements in and omissions from the 2014 Registration Statement and/or Prospectus.

299. By reason of the conduct alleged herein, the Underwriter Defendants violated § 12(a)(2) of the Securities Act. As a direct and proximate result of the Underwriter Defendants' conduct, Lead Plaintiff Dormier, Plaintiff Chun, and other members of the Class who purchased

CMGE ADS pursuant to the Offering have sustained damages as a result of the untrue statements of material facts and omissions in the CMGE Offering Materials, for which they hereby elect to rescind and tender their CMGE ADS to the defendants sued in this count in return for the consideration paid for CMGE ADS with interest.

COUNT V
For Violations of Section 15 of the Securities Act
Against the Individual Defendants

300. Plaintiffs repeat and reallege each allegation forth in ¶¶1-22, 24-55, 74-114, 270-280, except any allegation of fraud, recklessness or intentional misconduct. This claim is based solely on strict liability and negligence claims, and expressly disclaim any allegation of fraud or intentional misconduct, except that any challenged statements of opinion or belief made in the Offering Materials are alleged to have been materially misstated statements of opinion or belief when made and at the time of the Offerings.

301. This claim is brought under § 15 of the Securities Act, 15 U.S.C. § 77o, against the Individual Defendants.

302. Each of the Individual Defendants, by reason of their status as senior executive officers and/or directors of CMGE, directly or indirectly, controlled the conduct of the Company's business and its representations to Plaintiffs and the Class, within the meaning of § 15 of the Securities Act. The Individual Defendants directly or indirectly controlled the content of the Company's SEC statements and press releases related to Plaintiffs' and the Class' investments in CMGE ADS within the meaning of § 15 of the Securities Act. Therefore, the Securities Act Individual Defendants are jointly and severally liable for the Company's fraud, as alleged herein.

303. The Individual Defendants controlled and had the authority to control the content of the Company's SEC statements and press releases. Because of their close involvement in the

everyday activities of the Company, and because of their wide-ranging supervisory authority, the Individual Defendants reviewed or had the opportunity to review these documents prior to their issuance, or could have prevented their issuance or caused them to be corrected.

304. The Individual Defendants knew or recklessly disregarded the fact that CMGE's representations were materially false and misleading and/or omitted material facts when made. In so doing, the Individual Defendants did not act in good faith.

305. By virtue of their high-level positions and their participation in and awareness of CMGE's operations and public statements, the Individual Defendants were able to and did influence and control CMGE's decision-making, including controlling the content and dissemination of the documents that Plaintiffs and the Class contend contained materially false and misleading information and on which Plaintiffs and the Class relied.

306. The Individual Defendants had the power to control or influence the statements made giving rise to the securities violations alleged herein, and as set forth more fully above.

307. As set forth herein, each Officer Defendant violated § 11 of the Securities Act by their acts and omissions as alleged herein. By virtue of their positions as controlling persons, the Individual Defendants are also liable pursuant to § 15 of the Securities Act.

308. As a direct and proximate result of the Individual Defendants' wrongful conduct, Lead Plaintiff Dormier, Plaintiff Chun, and members of the Class suffered damages in connection with their purchase of CMGE ADS pursuant to the Offering Materials.

309. This claim was brought within one year after Plaintiffs discovered or reasonably could have discovered the untrue statements and omissions in the Offering Materials that should have been made and/or corrected through the exercise of reasonable diligence, and within three years of the effective date of the 2014 Registration Statement.

PRAYER FOR RELIEF

WHEREFORE, Plaintiffs on behalf of themselves and the Class, pray for relief and judgment including:

A. Determining that all counts of this action are a proper class action under Federal Rules of Civil Procedure 23, certifying Plaintiffs as Class representatives under Rule 23 of the Federal Rules of Civil Procedure, and certifying Plaintiffs' counsel as Class Counsel;

B. Awarding compensatory damages in favor of Plaintiffs and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be determined at trial, including pre-judgment and post- judgment interest, as allowed by law;

C. Awarding rescissory damages in favor of Plaintiffs and the other Class members against all Defendants, jointly and severally, for all injuries sustained as a result of Defendants' wrongdoing, in an amount to be determined at trial, including pre-judgment and post-judgment interest, as allowed by law;

D. Awarding extraordinary, equitable, and/or injunctive relief as permitted by law (including, but not limited to, rescission);

E. Awarding Plaintiffs and the Class their costs and expenses incurred in this action, including reasonable counsel fees and expert fees; and

F. Awarding such other and further relief as may be just and proper.

JURY TRIAL DEMAND

Plaintiffs hereby demand a trial by jury on all triable claims.

Dated: July 18, 2016

GLANCY PRONGAY & MURRAY LLP

By: *s/ Kara M. Wolke*
Robert V. Prongay
Kara M. Wolke
Elaine Chang
1925 Century Park East, Suite 2100
Los Angeles, California 90067
Telephone: (310) 201-9150
Facsimile: (310) 201-9160
Email: kwolke@glancylaw.com

-and-

GLANCY PRONGAY & MURRAY LLP
Lesley F. Portnoy (LP-1941)
122 East 42nd Street, Suite 2920
New York, New York 10168
Telephone: (212) 682-5340
Facsimile: (212) 884-0988
lportnoy@glancylaw.com

Lead Counsel for Lead Plaintiff Johnnie Dormier and the Class

THE ROSEN LAW FIRM, P.A.
Laurence M. Rosen
Jonathan Stern
275 Madison Avenue, 34th Floor
New York, New York 10016
Telephone: (212) 686-1060
Facsimile: (212) 202-3827
Email: info@rosenlegal.com

LAW OFFICES OF HOWARD G. SMITH
Howard G. Smith
3070 Bristol Pike, Suite 112
Bensalem, PA 19020
Telephone: (215) 638-4847
Facsimile: (215) 638-4867

Additional Counsel for Plaintiffs

PROOF OF SERVICE BY ELECTRONIC POSTING PURSUANT TO SOUTHERN DISTRICT OF NEW YORK ECF AND LOCAL RULES AND BY MAIL ON ALL KNOWN NON-REGISTERED PARTIES

I, the undersigned say:

I am not a party to the above case, and am over eighteen years old.

On July 18, 2016, I served true and correct copies of the foregoing document, by posting the document electronically to the ECF website of the United States District Court for the Southern District of New York, for receipt electronically by the parties listed on the Court's Service List.

I affirm under penalty of perjury under the laws of the United States of America that the foregoing is true and correct. Executed this 18th day of July, 2016, at Los Angeles, California.

s/ Kara M. Wolke
Kara M. Wolke

Mailing Information for a Case 1:14-cv-04471-KMW In re CHINA MOBILE GAMES & ENTERTAINMENT GROUP, LTD SECURITIES LITIGATION

Electronic Mail Notice List

The following are those who are currently on the list to receive e-mail notices for this case.

- **Kevin Koon-Pon Chan**
  kchan@rosenlegal.com
- **Elaine Chang**
  echang@glancylaw.com
- **Andrew Brian Clubok**
  aclubok@kirkland.com,kenymanagingclerk@kirkland.com,ecf-0d7718e02313@ecf.pacerpro.com
- **Gregory M. Egleston**
  egleston@gme-law.com
- **Richard William Gonnello**
  rgonnello@faruqilaw.com,msullivan@faruqilaw.com,ecf@faruqilaw.com,klenahan@faruqilaw.com,dbehnke@faruqilaw.com
- **Adam Selim Hakki**
  ahakki@shearman.com,Courtalert@shearman.com,manattyoffice@shearman.com
- **Jeffrey D. Hoschander**
  jeff.hoschander@shearman.com,managing-attorney-5081@ecf.pacerpro.com,CourtAlert@Shearman.com,manattyoffice@shearman.com,Laura.Caldwell@Shearman.com,riley.cook@shearman.com
- **Adam Thomas Humann**
  ahumann@kirkland.com,kenymanagingclerk@kirkland.com,eric.dellon@kirkland.com
- **Phillip C. Kim**
  pkim@rosenlegal.com
- **Daniel Craig Lewis**
  daniel.lewis@shearman.com,CourtAlert@Shearman.com,manattyoffice@shearman.com
- **Jeremy Alan Lieberman**
  jalieberman@pomlaw.com,disaacson@pomlaw.com,abarbosa@pomlaw.com
- **Gregory Bradley Linkh**
  glinkh@glancylaw.com
- **Eric Scott Merin**
  eric.merin@gmail.com
- **Lesley Frank Portnoy**
  LPortnoy@glancylaw.com
- **Robert Vincent Prongay**
  rprongay@glancylaw.com,echang@glancylaw.com
- **Laurence M. Rosen**
  lrosen@rosenlegal.com
- **Kara M. Wolke**
  kwolke@glancylaw.com,info@glancylaw.com
- **Leopoldo Joaquin Yanez**
  leopoldo.yanez@kirkland.com

Manual Notice List

The following is the list of attorneys who are **not** on the list to receive e-mail notices for this case (who therefore require manual noticing). You may wish to use your mouse to select and copy this list into your word processing program in order to create notices or labels for these recipients.

- (No manual recipients)